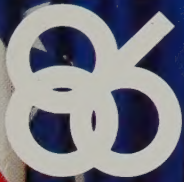




EXPO



AR22

British Columbia Telephone Company Annual Report 1985



# Comparative Highlights

For the years ended December 31

		1985	1984	Increase (Decrease)
<b>Revenues, Expenses and Earnings</b> (\$ Millions)				
Telecommunications operations				
	– revenues	\$1,217.0	\$1,147.8	6.0%
	– expenses	\$ 876.0	\$ 851.3	2.9%
Manufacturing operations				
	– sales	\$ 167.5	\$ 170.4	(1.7%)
	– costs and expenses	\$ 167.2	\$ 174.6	(4.2%)
	Combined operating earnings	\$ 341.3	\$ 292.3	16.8%
	Ordinary share earnings	\$ 97.5	\$ 82.1	18.8%
<b>Ordinary Shareholders' Items</b>				
	Average shares outstanding ( <i>Thousands</i> )	44,204	39,728	11.3%
	Earnings per share	\$ 2.21	\$ 2.07	6.8%
	Dividends declared per share	\$ 1.72	\$ 1.66	3.6%
	Equity per share	\$ 18.95	\$ 18.43	2.8%
	Return on average share equity	12.01%	11.52%	4.3%
<b>Invested Capital</b>				
	Average invested capital (\$ Millions)	\$2,203.7	\$2,081.6	5.9%
	Return on average invested capital	10.86%	10.68%	1.7%
<b>Other Statistics</b>				
	Gross capital expenditures (\$ Millions)	\$ 368.5	\$ 352.4	4.6%
	Internally generated funds (\$ Millions)	\$ 302.3	\$ 238.4	26.8%
	Percent of expenditures internally generated	82%	68%	20.6%
	Customer lines in service	1,525,150	1,474,801	3.4%
	Customer line gain for the year	50,349	34,066	47.8%
	Long distance calls completed ( <i>Millions</i> )	192.2	180.2	6.7%
	Number of employees	15,863	16,576	(4.3%)





The cluster of flags on our cover illustrates the international character of Expo 86, while the presence of the Telecom Canada flag among them symbolizes the important role played by modern telecommunications in the business and social life of the world's peoples.

In all, 43 countries, plus the United Nations and the city of Hong Kong,

will participate in the 1986 World Exposition of Transportation and Communication.

Our cover picture and the photographs in other sections of this annual report are B.C. Tel's salute to the spirit of Expo 86 and an acknowledgment of its importance to our Company and to British Columbia and its people.

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## The Chairman's Letter



As a preamble to my first "Chairman's Letter" which appeared in B.C. Tel's annual report for 1978, I said, "It is important that our investors have a perception of this Company which goes beyond an understanding of our financial performance and encompasses something of the spirit of the Company."

In succeeding "Letters" I have tried to convey that spirit as accurately as possible — whether it was the excitement engendered by the introduction of new technologies in our system, the divisiveness of a troubled labour climate or the strain of coping with such outside forces as inflation or a stagnant economy.

This year, I am happy that I can report to you, the shareowners, that the spirit of the Company is very positive — a combination of satisfaction and assurance.

The satisfaction comes from the knowledge that, in a very short time and in the face of one of the worst recessions this province and this country have experienced, we have been able to change what was a massive utility whose philosophy was reactive rather than proactive into a streamlined, diversified enterprise that is relevant to its times, oriented to its markets and ambitious in its goals.

The assurance comes from the evidence that the sometimes painful and always demanding efforts we had made in the preceding difficult years were, indeed, worthwhile, solid and capable of delivering their intended results.

The year-end success of Microtel Limited in winning the largest single contract in its history is a prime example of such results.

In December, a consortium made up of Microtel Limited and CANAC Consultants Limited was awarded a federal government contract of up to \$268 million to build the communications segment of Canada's North Warning System.

I consider this to be a most significant and important development for B.C. Tel and for British

Columbia. Winning this contract in the face of strong competition says, in the clearest language possible, that British Columbia has come of age in the era of high technology. It also reinforces B.C. Tel's concept of obtaining results through the coordination of our diversified resources and validates the investments we have made over the years in components of the B.C. Tel Group such as Microtel and its research and development arm, Microtel Pacific Research.

The heart of the communications system linking the new North Warning radar sites will be our Spacotel and System 51 technologies — each designed, developed and produced by Microtel in conjunction with other elements of the B.C. Tel Group.

Each of those elements made its own contribution to the general progress of the Company in 1985.

Our financial results, while still below our initial projections and expectations, were encouraging, given the continuing sluggish performance of the economy in which we operate. I am confident that we have weathered the worst of the recession and can now look with some assurance to a gradual and steady improvement in British Columbia's economy.

The performance of the mainstay of our Company — telephone operations — demonstrated the positive results of our earlier planning, investment and implementation. The Report of Directors details the importance of the network and, in particular, the contribution our improved support systems make to its high overall quality.

Business Telecom Equipment (BTE) continued to reinforce its dominant market position in 1985. The formation of a new enterprise in the B.C. Tel Group — B.C. Cellular — demonstrated our determination to explore and pursue growth areas and opportunities in the marketing of leading-edge technology.

The issue of increased



## *"British Columbia has come of age in the era of high technology"*

competition in the provision of long distance telephone services through 'interconnection' received a great deal of public attention in 1985. This was largely the result of publicity generated by the applications of CNCP Telecommunications and BC Rail to interconnect with B.C. Tel and by the decision of the Canadian Radio-television and Telecommunications Commission (CRTC) on those applications.

It is important for our shareholders to recognize that, in its 1985 decision, the CRTC did not — as some media coverage indicated — oppose competition in the long distance telephone market. The Commission's denial of CNCP's application was based on what the CRTC considered to be flaws in the application, rather than on an anti-competition principle. In fact, the decision broadened competition or opened the door to new competition in several areas of the Company's business.

Details of the interexchange decision and some of its implications are covered in the Report of Directors.

This Company's position on competition is as described during the Commission's interexchange hearings and in previous reports to our shareholders: we favour competition and are prepared to compete whenever and wherever competition is deemed to be in the public interest and is manifestly fair and equitable.

Given these conditions, I am confident that the spirit of B.C. Tel's people coupled with the resources and flexibility which characterize the B.C. Tel Group can and will ensure this Company's success in the competitive marketplace.

We are encouraged by the Commission's approval of a higher allowable rate of return — part of its decision on our 1985 rate application. The higher allowable rate of return recognizes the changing nature of the risk involved in our business and the changing nature of our business itself.

Although the Federal

Government has demonstrated that it favours competition and less government presence in the marketplace, it seems almost certain that the environment in which the Canadian telecommunications industry operates will continue to contain a relatively large government/regulatory component.

In such an environment, it is important that the Company be thoroughly conversant with government policies and aware of intentions as well as understanding the entire political and policy making process. To that end, we created the position of vice-president government relations in 1985, to be located in Ottawa, and appointed Jocelyne Côté-O'Hara to that position.

Three other vice-presidents were appointed in 1985 — Messrs. Brian Canfield and Roy Osing in telephone operations and Lynn Patterson in BTE. These appointments and the retirement of Gilbert Auchinleck as vice-president technical support are detailed in the Report of Directors.

As a long-time colleague of Mr. Auchinleck, I wish to record my deep appreciation of the valuable contribution he has made to the Company throughout his many years of dedicated service and my warm personal regard for a valued friend.

One of the factors responsible for an improved spirit within the Company in 1985 was the implementation of the Toward Excellence concept. This concept, which calls for a commitment on the part of the individual to a goal of excellence, is still in the early stages of application but it has already been received enthusiastically in many areas of the Company.

Enthusiasm also describes B.C. Tel's approach to Expo 86 — the world exposition on transportation and communication. We recognized, from its inception, that Expo 86 could provide not only a catalyst for economic revival for the province, but also an opportunity to demonstrate to the world the potential of British Columbia as well as the

accomplishments, pride and spirit of its people.

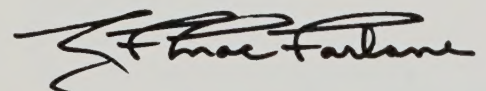
Consequently, we made an early commitment of total support for this exciting project — a commitment which has been honoured by the Company and by our employees whether they were directly involved in Expo-related work or demonstrating support through the purchase of advance admission tickets.

B.C. Tel's involvement in Expo 86 is detailed in the Burrard Area section of the Report of Directors and our cover picture and other photographs in the Report give some indication of the dazzling nature of this exposition.

Anticipation of the excitement Expo 86 will undoubtedly generate throughout the province was part of the atmosphere within B.C. Tel during 1985. I am sure that the same sense of achievement and excitement will play an even larger role in the growth and progress of the B.C. Tel Group in the years ahead. We will continue to support and nurture this new spirit of adventure, accomplishment and confidence within the Company.

Members of the Board of Directors, through their collective guidance, direction and counsel, continue to make a most valuable contribution to the long-term well-being of the Company, its shareholders and its employees.

I wish to acknowledge, in particular, the valued contribution Mr. Hugh Stephen has made to Board deliberations this year and throughout his thirteen year tenure on the Board. Mr. Stephen retires in March and carries with him the best wishes of the Board and the Company.



Gordon F. MacFarlane  
*Chairman and  
Chief Executive Officer*



## Report of Directors

*At one time, the Company's name — British Columbia Telephone Company — indicated the total of the Company's interests and activities. Today, the Company's interests and activities are spread across the spectrum of the telecommunications industry.*

*While telephone operations remains the principal business of the Company, accounting for some 88 percent of its total revenues, the Company's business activities now embrace manufacturing of telecommunications equipment, research and development, international consulting, and the marketing of products and services in the fields of terminal equipment, cellular mobile radio and satellite-linked communications systems.*

*These varied marketing activities are carried out in regulated and unregulated marketplaces and grow in importance each year as competition spreads throughout the industry.*

*To better indicate the diversity of the Company, the term "The B.C. Tel Group" has been adopted informally and is now used in our advertising and promotional campaigns as well as in this annual report.*

*The use of "The B.C. Tel Group" reflects the changing nature and flexibility of the Company as it adapts to and explores the opportunities emerging from the exponentially expanding set of discoveries and advances in high technology.*

### **FINANCIAL**

Although there were shortfalls from earlier revenue projections for some areas of the B.C. Tel Group's operations — a reflection of the still-sluggish provincial economy and restricted rate awards — stringent cost controls and the exploration of new sources of revenue combined to produce an overall improvement in the Company's financial picture by year-end.

Total revenues and sales for the various components of the B.C.

Tel Group amounted to \$1,384.5 million in 1985 compared with \$1,318.2 million in 1984, an increase of 5.0%.

Total operating expenses came to \$1,043.2 million compared with \$1,025.9 million in 1984, an increase of 1.7%.

The Company was able to finance some 82% of its 1985 construction program from internal sources, with external financing tailored to take advantage of lower interest rates in the latter part of the year.

In November, \$125 million of additional first mortgage bonds, 11.35% Series AL due 2005, were sold in Canada. Additional equity capital was also raised during 1985 from the issue of 910,307 ordinary shares by way of the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

The Company's debt/equity ratio now stands at 51.1%.

The performance of the Company's ordinary shares in the marketplace during 1985 was encouraging. In addition to reflecting the decrease in interest rates, it would appear to reflect a growing appreciation on the part of investors of the Company's ability to produce revenue growth in spite of the severe recession as well as the Company's ability to control expenses and improve productivity.

### **Dividend**

A quarterly dividend of \$.43 per ordinary share was maintained during 1985 representing, in total, a payout, due to inadequate earnings, of approximately 78% of share earnings for the year.

### **Corporate Management**

For the various components of a diversified enterprise such as the B.C. Tel Group to function effectively and to make optimum contributions to the financial well-being of the enterprise, unity of purpose, shared goals and sound leadership are required.

While each element has its own priorities and action plans,



*"... shared goals and unlimited horizons"*

these must be set and implemented in a manner which will harmonize with the short and long-term goals of other component members as well as those of the group as a whole.

In the case of B.C. Tel, it is the responsibility of the Corporate Management Group to gather and evaluate the wide variety of information needed to ensure that corporate decisions display confident leadership, reflect a proper assessment of priorities set against available resources and provide for the coordination of the efforts of each member of the B.C. Tel Group.

This information can be as definite as the best timing for placing a bond issue or as indefinite as the probable intentions of governments. The activities of the Corporate Management Group can include advancing the Company's position in a regulatory forum or enhancing the Company's reputation in the public eye; improving communications with shareholders or assessing the viability of a new business venture.

In 1985, the sum of these and many other activities and initiatives of the Corporate Management Group made a significant contribution to the progress of the Company toward its long-term goals.

#### **CORPORATE COALESCENCE**

In 1985, the various aspects of the Company's strategic planning, its implementation of policies and a new corporate spirit came together to produce an enterprise whose people are bonded and supported by demonstrated superior performance at all levels; by access to leading-edge technologies and techniques and by shared goals and unlimited horizons.

The total of the planning, the investment in advanced technology and the improvement of policies and practices was achieved only as a result of the quality of its people — the single most important element making up the B.C. Tel Group.

The quality of B.C. Tel's people found much of its expression

in 1985 through the introduction of the Toward Excellence concept.

#### **Toward Excellence**

The Toward Excellence concept is a formalized return to simple, straightforward business basics that have become obscured or oversophisticated.

In practice, five key action elements: existing for the customer, fostering individual commitment, taking innovative action, getting back in touch and instilling unique values, are combined with B.C. Tel's own sense of its unique culture — its values — and our vision of our goals.

B.C. Tel's values and vision statements are synopsized on page 48 of this report.

The Toward Excellence concept, integrated with the ongoing BEST strategy, our Quality Circles and the Speak Out program have helped build a team spirit within the Company while producing concrete results in revenue enhancement and cost containment.

#### **CORPORATE PRESENCE**

The successful company, in today's world, must do more than simply exist in the marketplace. It must tell its story and have that story understood by its customers, its shareholders, its employees and the various levels of government which affect the company. To that end, B.C. Tel took many positive steps in 1985 to ensure that its unique qualifications, its resources and its aspirations made up a complete and compelling recital of the Company's strengths and substance.

#### **Government Relations**



Jocelyne  
Côté-O'Hara

*"B.C. Tel employees provided magnificent service. They took pride in their work and were there when we needed them."*

The appointment of Jocelyne Côté-O'Hara as Vice-President — Government Relations, based in Ottawa, affords the Company experience and expertise in dealing with the federal government and the federal agencies which affect the Company's policies and planning. Ms. Côté-O'Hara is responsible for the coordination of B.C. Tel's ongoing liaison with government and brings to the position a distinguished record of public policy planning and administration.

#### **Information and Advertising**

An aggressive and successful community relations program and a variety of advertising and promotional campaigns brought the B.C. Tel story to targeted audiences.

#### **At the Scene**

As a result of large-scale involvement in Expo 86, both as a major supplier of equipment and services and in the display aspects connected with the Telecom Canada Pavilion, B.C. Tel's name is strongly linked to this high-profile exposition. Similarly, on a province-wide basis, the B.C. Tel Group's involvement with two other major projects — the B.C. Lottery Corporation's new network and Provnet, the provincial government's private telecommunications network — underlined the scale of the Company's resources.

#### **At the Door**

Possibly the most valuable effort to increase B.C. Tel's presence and reputation in the competitive marketplace was the simplest. More and more B.C. Tel people from all sectors of the Group made personal contact with customers and potential customers to tell the B.C. Tel story in the customers' terms.

#### **COORDINATION — COOPERATION**

"B.C. Tel employees provided magnificent service. They took pride in their work and were there when we needed them."

Those words of praise came from the president of the British Columbia Lottery Corporation. They



refer to B.C. Tel's work on one of the largest projects ever undertaken for a single customer.

With this project, the B.C. Tel Group demonstrated the kind of coordination and cooperation it can call upon when faced with large-scale and varied requirements to be met in a tight time frame.

The British Columbia Lottery Corporation (BCLC) was set up early in 1985 to replace the Western Canada Lottery Foundation in B.C. The project involved reconfiguring and rerouting a data network to accommodate the data flowing from the existing lottery terminals to the new BCLC headquarters in Kamloops. Provision also had to be made for the addition of hundreds of new lottery terminals.

Each of the five Areas of telephone operations contributed to the project, as did technical support. Canadian Telephones and Supplies won the contract for an uninterrupted power supply for the Kamloops headquarters. BTE won the contract to maintain and service the terminals, some 1800 of which had been installed by the end of 1985. A total of 2,001 terminals will be in operation by May 1, 1986.

### **Telecom Canada**

B.C. Tel shares the benefits of the cooperation and coordination of effort practiced by all members of Telecom Canada in technical and network planning, network operation and management, and the development and implementation of new services and facilities coordination.

Another important benefit of membership is the developmental opportunities afforded B.C. Tel people who take three-year assignments with Telecom Canada in Ottawa.

B.C. Tel played an active role in the preparation of the film, "Portraits of Canada — Images du Canada," which will be shown in Circle-Vision 360 at the Telecom Canada Pavilion during Expo 86.

## **REGULATION AND COMPETITION**

### ***Interexchange Competition***

Following lengthy public hearings, the CRTC rendered its decision on interexchange competition and related issues on August 29, 1985.

The Commission denied the CNCP Telecommunications application to compete with B.C. Tel and Bell Canada in the provision of long distance service in the telephone companies' operating territories. This decision was appealed by CNCP in a mid-December application to the CRTC. At the time of writing, the Commission has not indicated the procedure it will follow in regard to this appeal.

In its August decision, the Commission liberalized competition in three areas affecting B.C. Tel:

- BC Rail's application to compete with B.C. Tel in the provision of certain private line and voice and data services was approved.

- The interconnection with B.C. Tel's networks was approved.

- The reselling or sharing of telecommunications services to provide other than long distance telephone services and local telephone services by customers of the telephone companies was permitted.

B.C. Tel's response to this liberalization of competition is discussed in the Marketing section of this report.

### ***Other Issues***

In its decision, the Commission stated that increased competition in the long distance telephone market could yield a number of benefits which would be in the public interest, principally lower long distance rates. While the Commission stated that long distance rates should come down, it also expressed its concern regarding the potential negative effects of competition on local basic telephone rates which are far below cost.

The Commission did not accept the rate restructuring

proposals advanced by both B.C. Tel and Bell Canada during the hearings. B.C. Tel believes that a restructuring process should be completed before any further entry into the competitive long distance market is permitted.

However, the Commission stated that the issues of competition and rate relationships in the telephone industry have such broad and far-reaching implications for Canadians everywhere that a public process is required to consider the full issue of long distance rate levels. This public process could also involve consultation with federal and provincial regulatory bodies or representatives.

B.C. Tel has welcomed the announcement of this public process and expects to participate fully. We attach great importance to this consideration of the implications of restructuring long distance and local rates. The provision of universal, affordable basic local telephone service almost everywhere in the province is a goal which B.C. Tel attained many years ago. We share the concern of the CRTC that this principle may well be jeopardized by inequitable competition. We are prepared to cooperate in creating and implementing a 'safety net' of whatever nature or dimensions would be required to assure the continuation of access to such service.

### ***1985 Rate Decision***

B.C. Tel received regulatory approval to increase basic exchange rates and service charges effective May 1, 1985 as part of the CRTC decision on the Company's rate application filed with the Commission on October 26, 1984. The Commission approved modest increases in basic residential and business exchange rates, business overline and PBX trunks, rental charges for single line subscribers and a variety of service charge increases as well as increases in some intra-B.C. long distance



*“... recognition of the Company’s need for a more realistic rate of return...”*

charges. The interim increase of four percent, which had become effective July 1, 1984, was also approved.

Although the recession-ridden economy failed to generate the volume of calling and line growth that had been forecast as part of the application, the 1985 rate increase did produce some \$19.1 million additional revenues for the Company by year-end.

Probably the most significant part of the decision was the approval of a range of rate of return of 13.75 percent to 14.75 percent, a recognition of the Company’s need for a more realistic rate of return on equity to attract the capital required for construction and expansion.

**Cost Inquiry Ends**

The completion of Phase III of the CRTC’s Cost Inquiry in mid-year 1985 marked the end of a thirteen-year process of examination of costs related to telecommunication carriers. As a result, there is now a prescribed methodology for measuring the various costs of providing service.

With this costing methodology, the CRTC believes it will be able to identify the extent and nature of any cross-subsidies which may exist among a few broad service categories. In total, the long process of the Cost Inquiry has provided an important building block upon which future regulatory policies can be structured.

**Telephone Operations**

The intensive efforts of the past few years, which produced the reorganization of telephone operations, the modernization of the network’s facilities and the shift in emphasis to marketing activities plus the improved morale of the people involved, have brought about a telecommunications network that employs leading-edge technologies, is staffed by highly motivated and skilled people and is self-directed to achieve ambitious goals.

All of this was evident in 1985.

Part of that evidence is contained in the financial results

and performance statistics. Other evidence is the scope and vigor of the network’s marketing efforts, the quality and resourcefulness of the technical support available and the hard work and initiative displayed throughout the five telephone operating Areas.

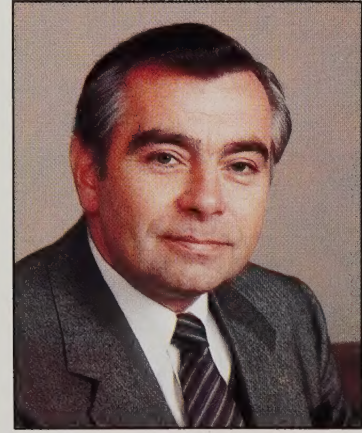
The effects of the Toward Excellence concept, the continued application of the BEST strategy and the results of our high quality training and education resources all combined in 1985 to encourage a new level of employee morale and effectiveness throughout telephone operations.

Continued emphasis is placed on those activities which have a beneficial impact on customer service levels in order to reach and maintain a high level of customer satisfaction.

**Administration**

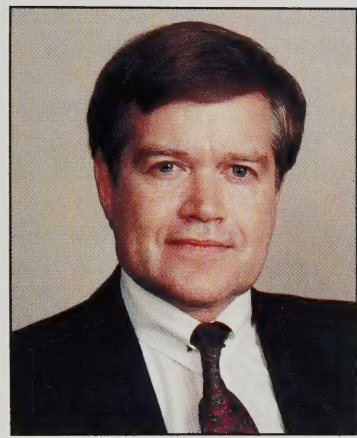
Several executive appointments and changes of assignment in telephone operations were made in the latter part of 1985, following the retirement of Gilbert F. Auchinleck — Vice-President — Technical Support.

Brian Canfield, formerly Area General Manager — Burrard, was appointed Vice-President — Technical Support; William McCourt, formerly Vice-President — Network Marketing, was appointed Vice-President and Area General Manager — Burrard; and Roy Osing, formerly Director of Network Marketing, was appointed Vice-President — Network Marketing.

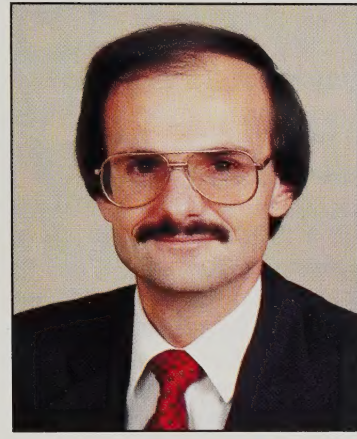


Brian Canfield

*“... growing success in retailing the network’s services and products...”*



William McCourt



Roy Osing

**Network Growth**

**Revenues and Expenses**

In 1985, total operating revenues for the network increased by 6.0% over those of 1984. Revenues were \$1,217.0 million for 1985 compared with \$1,147.8 million for 1984.

The total of network expenses grew by 2.9%, totalling \$876.0 million in 1985 compared with \$851.3 million in 1984.

**Revenue and Expense Growth**

	Revenues	Expenses
1983 over 1982	8.1%	8.8%
1984 over 1983	5.2%	5.6%
1985 over 1984	6.0%	2.9%

The improved rate of growth in operating revenues in 1985 reflects a rising volume of long distance calling as well as customer line growth and the effect of 1985 rate increases. Moreover, the declining rate of growth for operating expenses



*“...providing major telecommunications services... to Expo 86”*

is a clear indication that the continuing efforts to curtail controllable expenses is effective.

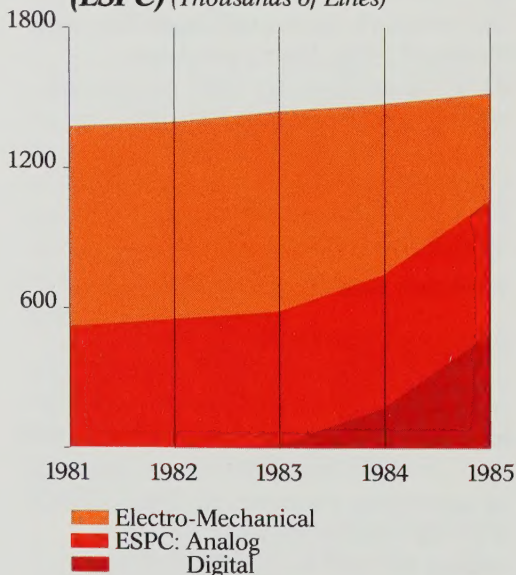
Long distance revenues rose to \$705.7 million in 1985 compared with \$644.7 million in 1984. Calling volumes rose sufficiently in 1985 to indicate that the worst of the recession has passed and that continuing growth, albeit modest, can be anticipated in the year ahead.

#### Service Development

Growth in customer lines amounted to 50,349 lines in 1985 compared with the growth figure of 34,066 for 1984. These additions bring the total of the Company's customer lines to 1,525,150.

As a result of B.C. Tel's Electronic Stored Program Control (ESPC) Conversion, some 70% of lines are now served by electronic switches. It is estimated that by year-end 1986, that percentage will have risen to 84%. B.C. Tel presently has a higher percentage of customer lines served by electronic switches than any other investor-owned telephone company in Canada.

**Conversion of Customer Lines to Electronic Stored Program Control (ESPC) (Thousands of Lines)**



#### Construction

The 1985 construction expenditures for telephone operations totalled \$359.1 million — slightly above the

\$357.1 million originally projected.

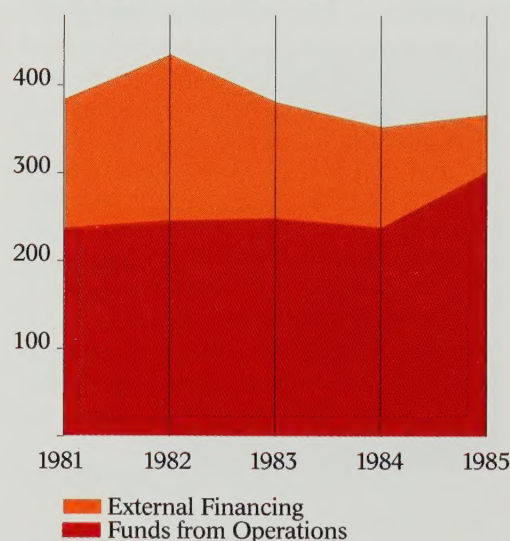
As in the past few years, a high priority in budget allocation was given to modernizing network facilities through the introduction or replacement of existing facilities with future-oriented equipment — notably fibre optic transmission systems and the GTD-5 digital switches.

In 1985, these Microtel-built switches added some 306,000 electronically served lines through the installation of 18 base units, 5 remote switching units and 5 remote line units. In all, there are now 41 GTD-5 base units and 31 remote switching and remote line units in the B.C. Tel network.

The upgrading of the network with digital switches has meant improved customer service and reduced maintenance cost. It has also enabled B.C. Tel to offer a variety of new revenue-producing services based on the capabilities of these switches.

The improvement of every aspect of its service to its customers continues to be the prime consideration of telephone operations. Substantial funds were allocated in 1985 for improvements to such areas as customer billing and records and the introduction of 1 + dialing on long distance calls and the 411 and 611 codes for Directory Assistance and Repair Service calls respectively.

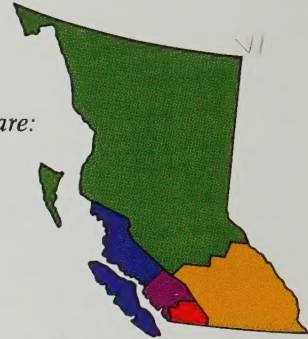
**Source of Funds Used for Construction (\$ Millions)**



#### THE OPERATING AREAS

The Five B.C. Tel Operating Areas are:

- Burrard
- Fraser
- Island
- Mackenzie
- Columbia



In its third full year of operation, the area management concept continued to prove practical and successful. Throughout 1985, the five operating areas participated in the large-scale projects of the B.C. Tel Group and met the regional needs and conditions of their particular areas.

#### Burrard Area

The responsibility for providing major telecommunications services to one of the largest and most visible projects in the province — Expo 86 — rests, for the most part, with the Burrard Area.

Burrard Area and other elements of the B.C. Tel Group have provided the telecommunications infrastructure for the exposition. Miles of cable have been placed underground to meet the many requirements of the Expo administration, the pavilions, amusement attractions, public telephones and assorted broadcast links. Centrex service is being used for the on-site administration of Expo and it is anticipated that the majority of the national pavilions will be served by this facility.

Burrard Area completed major switching and cabling projects apart from Expo during 1985 with the installation of GTD-5 switches and fibre optics cable. The largest digital switch installation in the Company — that of the Mutual office which serves much of downtown Vancouver and the residential West End — went into service in mid-year to provide digital switching to 40,000 lines and 20,000 inter-office trunks. Other



*"... a very successful  
Telemarketing Centre..."*

conversions completed in 1985 and those planned for 1986 will see about 95% of Burrard's customers served by electronic switching.

In addition to improving its physical facilities, Burrard Area committed its expanded sales force to a vigorous pursuit of new business and consolidation of existing business or — in several important instances — winning back customers from competitors. Burrard Area services many of the province's largest business accounts and was successful in retaining or increasing its share of their business in 1985.

The 'close-to-the-customer' philosophy was in effect in all aspects of Burrard's 1985 activities and resulted in improved service to its many residential customers as well as its business accounts.

#### **Fraser Area**

Fraser Area is responsible for providing B.C. Tel services in the heavily populated Fraser Valley and has the second largest number of customer lines in the B.C. Tel system.

A pilot project was completed in 1985 to improve the testing, dispatch and repair of customer-reported troubles as well as those detected by automatic routine testing. This project also utilizes the new paperless Trouble Administration System. Following its successful trial, the system was implemented in the Fraser Area in January 1986 and will be extended to other Areas.

Fraser Area has developed a very successful Telemarketing Centre which focuses its attention on the many thousands of small and medium-sized customers throughout the Company. These customers, who were previously handled on a demand basis, now provide an increased source of revenue at a reasonable cost. By initiating the calls, Telemarketing demonstrates B.C. Tel's keen interest in serving the changing needs of our customers.

The BEST and Toward Excellence concepts are day-by-day working tools that are producing

*"... largest single project...  
comes to a successful  
conclusion"*

good results for Fraser Area and its customers.

#### **Island Area**

The completion of the largest single project ever undertaken by B.C. Tel for one customer was a highlight of Island Area operations in 1985. The final switching centre in Provnet, the provincial government's private telecommunications network, was cut into service in September.

Provnet now links 45 government offices throughout the province on a direct-line basis. Eight switching centres are now in operation and Provnet's experience to date indicates that trouble reports and circuit outage times have been reduced dramatically.

It took two years and the efforts of hundreds of employees from practically every part of the B.C. Tel Group to bring this major project to a successful conclusion. As a result of this combined effort, the provincial government now has an extended and enhanced system which facilitates government administration and service to the public. B.C. Tel has ensured the continuation of the substantial revenues which are generated by this very valuable customer.

Island Area network facilities were improved by the addition of four GTD-5 switches, additional radiotelephone marine terminals and the beginning of a fibre optics transmission system along the Island Highway.

The effect of these and many other service improvements carried out during the year was a marked upgrade in customer service and satisfaction.

#### **Mackenzie Area**

The approval of BC Rail's application to supply private line service in competition with B.C. Tel has the potential to make a substantial impact on Mackenzie Area's revenues since the railway serves major population centres in the Area. However, as a contingency, Mackenzie had set up marketing plans which have now been implemented. The competitive

*"Providing good service...  
often calls for exceptional  
efforts"*

action plans are targeted to maintain and develop high-revenue accounts and reinforce B.C. Tel's existing advantages.

The improved service provided by the electronic switching equipment which was installed in Mackenzie in 1984 has resulted in widespread customer comment and satisfaction. Providing good service is a day-by-day responsibility that comes with the territory but meeting that responsibility in Mackenzie's rugged terrain and in the face of extreme weather conditions often calls for exceptional efforts. Hurricane force winds, heavy snows and fire all challenged Mackenzie's people in 1985 — and were met with exemplary responses. In one instance, a fire at the Brown Bear Mountain microwave site isolated several communities including Stewart but, although the site was completely destroyed, telephone service was restored within 27 hours.

At various times, up to ten Spacotel units were in service in Mackenzie in 1985, many at remote locations under natural resource development. One Spacotel unit supplies service to the remote community of Hartley Bay and another is scheduled for Takla Landing.

#### **Columbia Area**

For Columbia Area, the routine of supplying service to its customers in the Okanagan, Kootenays and the central interior of the province was interrupted, dramatically, by out-of-control forest fires which raged through the Area in the summer of 1985.

The crews fighting the forest fires and the officials directing their efforts required reliable communications for up-to-the-minute reports. Columbia Area employees, assisted by the resources of the B.C. Tel



*“... a favorable commendation...”*

Group, responded to the emergency in a manner that won a favorable commendation from the Ministry of Forests.

In an eight-day period, the complete communications centre of the fire-fighting team had to be evacuated from two fire-threatened locations and re-installed three times. Each move entailed B.C. Tel crews setting up temporary switchboards and cables, all on short notice and with great urgency.

Other Columbia employees worked with Satellite Broadband and Broadcast Services to install three Spacetel units in the mountains close to fire locations. These units performed very effectively.

Three other Spacetel units were installed along the Coquihalla Highway as communication links during the construction of this massive project.

Preliminary work began in 1985 on an extensive \$4.7 million fibre optics transmission system in the Area. Approximately 222 kilometres of fibre optics cable are being placed between Kelowna and Kamloops. When completed in 1986, it will improve the quality of telephone service in a number of communities in the Okanagan and Interior regions.

Construction of the new headquarters administration building in Kelowna was completed in 1985 and officially opened following a meeting of the Board of Directors held in Kelowna on January 22, 1986.

Columbia Area employees are gratified that the prompt actions of lineman Craig Dobie of Penticton in saving the life of a four-year-old child trapped in a burning basement have been recognized. Mr. Dobie has received the Royal Canadian Humane Society bravery award for the rescue.

#### **APPLYING TECHNOLOGY**

Personnel in the technical support sector of telephone operations are, for the most part, not involved in

*“... a very strategic accomplishment in data processing”*

direct contact with the network's customers. Nevertheless, the sum of all their varied efforts is directed toward meeting customer needs and achieving customer satisfaction.

It is their responsibility to provide the high-tech support systems that enable B.C. Tel to maintain its network at a high service level and its services at reasonable cost.

The 1985 realignment of Management Information Services with Technical Support rounds out the resources of this sector and reaffirms the customer-orientation of its activities.

The implementation of the new Customer Database in 1985 marked the completion of B.C. Tel's largest systems change in two decades and a very strategic accomplishment for B.C. Tel in data processing.

Customer account data is stored and retrieved much more quickly, efficiently and with far less cost than in the past. However, the strategic value of the system, which employs the most modern technology available, rests in its ability to provide accurate, current information to network planning, customer services, network marketing and other areas of the Company.

The billing flexibility inherent in the new system enables the marketing department, for example, to implement highly specialized long distance promotions such as discounts for calls at certain hours.

A second MIS data centre, to be opened in the new Headquarters Building addition early in 1986, will provide needed expansion of computing capacity to support the growing demand for information processing and also supply a contingency backup for the existing data centre.

#### **Customer Service Improvements**

Some aspects of the work of technical support which have a direct bearing on customer service include the development of a Facilities Management System and a Customer Records Information

System, both of which are aimed at substantial service improvements and reduced operating expense.

Preparations were made for the 1986 implementation of an advanced directory assistance system which will automatically provide a computer-generated audio response to customers seeking directory assistance. Coupled with automatic number identification of calls to directory assistance, the total system will reduce operating expense and reduce the incidence of customers being billed for inquiries made by others.

#### **Network Quality**

Major improvements in the basic quality of the network have been made over the past several years to its two components — switching and transmission. The conversion to digital switching units, now well underway, has brought obvious benefits to the customer. The introduction of optical fibres as a transmission medium has produced results which may be less obvious but are equally important.

#### **Fibre Optics Transmission System (FOTS)**

Apart from its advantage of providing transmission which is essentially 'noise'-free, the use of fibre optics has proved to be very cost effective — an important consideration for a company facing competition in so many areas of its operations.

Twenty-six of B.C. Tel's central offices now have FOTS installations permitting a large volume of interexchange traffic to be carried by this technology.

As noted in the reports from the Columbia and Island Areas, the use of FOTS has progressed beyond inter-office trunking and short-haul applications. When projects currently underway are completed, there will be approximately one million sheath-metres of FOTS in



*“...providing strategic tools to support the overall business plans of the B.C. Tel group”*

service in the B.C. Tel system.

### **Network Reliability**

To ensure that the high quality which is built into the network is utilized effectively and maintained at a constant high level of service, B.C. Tel employs a wide variety of highly sophisticated systems and services. Their function, in total, is to provide accurate and instant information on the status of the network as a whole and on each of its components.

The information produced by the constant surveillance of the network plays an important role in other areas of B.C. Tel's operations. Network reports provide valuable data which can be used as the basis for marketing initiatives.

Increasingly, the activities and resources of technical support are providing strategic tools to support the overall business plans of the B.C. Tel Group.

### **MARKETING**

The revenue generating role of network marketing grows in importance and complexity each year, requiring a highly trained, ambitious and enthusiastic sales force and quality products and services. In 1985 this combination produced substantial dollar returns for B.C. Tel in the face of new and increased competition.

### **Competition**

#### ***Interexchange Decision***

The decision by the CRTC to liberalize competition has serious implications for B.C. Tel. This action by the Commission has opened the door to entrepreneurs who are already testing the possibilities inherent in interpretations of the decision.

#### ***B.C. Tel's Response***

B.C. Tel's strategy is to defend its private line market aggressively by continuing to offer high service quality to validate premium prices. The premium quality offered to customers flows from B.C. Tel's resources, the experience and expertise of its people as well as the

*“...the unique high-quality supplier...”*

universality and quality of its network.

The Company recognizes that competition in long distance message toll and WATS services may well be inevitable and that, if and when it does appear, it will be vigorous and substantial.

Against that time, the Company is making every effort to reinforce its position as the unique high-quality supplier of such services. Network marketing has a strategy in place which, in essence, consists of making B.C. Tel's services so valuable to existing customers and so attractive to potential customers that would-be competitors will find market entry extremely difficult.

There will be a constant focus on the customer's needs and wants to give that customer strong reasons to stay with or choose B.C. Tel.

#### ***Cross-border Reselling***

A full year before the CRTC liberalized competition in its interexchange decision, B.C. Tel was faced with an instance of competition by long distance resellers. Resale firms used B.C. Tel's services to access switches in Washington State and then bought 'discounted' American service to complete B.C.-to-U.S. calls for their customers.

B.C. Tel's response was two-pronged. The Company applied for, and was granted, permission to restructure its cross-border rates to the United States and launched a direct marketing campaign.

The result has been a reversal in the rate of growth of the resellers' market share of U.S. calling originating from Vancouver and Victoria, the areas most strongly affected.

#### ***Other Marketing Activities***

##### ***Retailing the Network***

Long distance telephone and other telecommunications services were

*“...a new exclusive-to-B.C. Tel service...”*

promoted extensively through advertising campaigns, tailored approaches to individual businesses and merchandising promotions staged by B.C. Tel, alone and in conjunction with Telecom Canada. One such promotion was the most successful in Canadian history — drawing some five million contest entries nation-wide.

### **Consumer Products**

The consumer products division of B.C. Tel is now completely competitive. Customers are able to purchase their single-line phones and auxiliary equipment from any one of dozens of suppliers — including B.C. Tel.

It had been anticipated that when this option was available, there might be a substantial switchover from rental to purchase. However, largely due to aggressive marketing and the good service provided by the Company, this did not occur.

Special promotions and the quality and variety of products available in B.C. Tel's Phone Marts proved attractive to customers in 1985. Sales of the product line distributed by the Company through its Phone Marts increased by approximately 40% over 1984 levels.

### **Enhanced Services**

The entire area of enhanced services — those with value added to a basic service — is growing rapidly and has the potential to make impressive contributions to Company revenues in the future.

Enhanced services such as iNet and Envoy, offered by B.C. Tel in conjunction with Telecom Canada, provide the business customer with valuable tools for information management and improved quality of communication. Returns from the marketing of iNet are well in excess of original projections as are those from the Envoy group of public messaging services.

Interim approval has been obtained for a new B.C. Tel service, 'telme', which permits customers



*"... Canada's first..."*

who subscribe to the service to use their touch telephone to record messages in their own voices to be stored or forwarded to other users — a voice mailbox.

The provision of enhanced services breaks new ground with the introduction of each new adaptation of leading-edge technology and therefore requires a resolute and innovative marketing approach. Apart from dollar returns, the marketing of enhanced services demonstrates that the Company is at the forefront in the use of the new technologies — a reinforcement of the overall marketing strategy.

#### **Spacetel**

Spacetel — a Microtel product marketed by B.C. Tel — continues to grow in the number and variety of its applications. Its value to the resource industries is documented by increasing revenue figures. Its value in an unusual application — fighting forest fires — has been described in the report from the Columbia Area. Its importance to the success of Microtel in winning the North Warning contract cannot be overemphasized.

#### **Specialized Programs**

The practice of targeting specific market segments for special attention continued throughout 1985. Such programs as Telemarketing and Direct Marketing as well as Phone Power were employed, in conjunction with Telecom Canada, to produce impressive year-over-year revenue gains.

#### **Another First for B.C. Tel**

B.C. Tel introduced Canada's first Automated Calling Card Service (ACCS) late in 1985. Customers using ACCS can now place their own Calling Card calls without operator intervention and have them billed automatically to their Long Distance Calling Card number by keying that number directly into a

touch calling telephone.

This service is available in the Burrard, Island and Fraser Areas of B.C. Tel and will become available later in 1986 in the Columbia Area followed by the Mackenzie Area.

#### **Continuing Efforts**

Network marketing will not rest on its market successes of 1985 which saw the network retain 85% of the private line market and win back a significant number of major accounts from the competition.

In the years ahead particular attention will be paid to the business market. Too many businesses continue to regard their long distance expenses as discretionary, rather than as an essential investment.

#### **HUMAN RESOURCES**

##### **A New Contract**

Following acceptance of a federal conciliation report, the Company and the Telecommunications Workers Union signed a new two-year collective agreement in August, 1985.

The contract, which runs until December 31, 1986, provided for no wage increases in 1985 for bargaining unit employees and a four percent increase, effective January 1, 1986.

A policy of hiring only for essential qualifications, together with normal attrition, resulted in a net decrease in the number of by year-end. As of December 31, 1985, there were 13,079 full-time employees in the headquarters and telephone operations sectors of B.C. Tel and 2,784 employed in other components of the B.C. Tel Group.

##### **Education and Training**

The Education Centre continued to provide resources and expertise for the Company's extensive range of training and retraining activities. Some 15,000 employees were directly involved in one or more of various programs in 1985.

Responsibilities connected with the introduction and implementation of the Toward Excellence concept were added to the normal

*"... one of Canada's finest programs"*

*"... improved efficiencies... contributed to... cost effectiveness..."*

functions of the education and training sector in 1985.

#### **Health Services**

In response to the surveyed requests of a majority of employees, the Company's clean-air policy, which now designates such areas as conference rooms and fitness centres as 'smoke-free', will be extended early in 1986. The result will be a basically smoke-free environment for all B.C. Tel employees, with smoking permitted only in designated areas during rest periods and lunch breaks.

Promoting a smoke-free environment is part of the health department's health education activities which, with its safety, fitness and occupational health programs, provide the most comprehensive health resource of its kind in the province.

The Employee Fitness program, which provides exercise facilities and instruction, testing, counselling and recreational activities, was awarded recognition in 1985 by the federal Minister for Fitness and Amateur Sport — the Honorable Otto Jelinek — and by The Canadian Chamber of Commerce as one of Canada's finest programs.

#### **SUPPLY TRANSPORTATION AND BUILDINGS (ST&B)**

During 1985, ST&B effected purchases of materials and service requirements totalling more than \$300 million. Between increased formal tendering of materials and the implementation of purchasing discount agreements with suppliers, a cost avoidance of up to 27% has been realized.

In addition, ST&B completed a computerized inventory of the more than 60,000 items it stocks in warehouses throughout the Company and has taken steps to minimize inventory investment. This, together with other improved efficiencies in the department's operations, has contributed greatly to the cost-effectiveness of its service.



*"...winback...  
demonstrated the value of  
...philosophy and  
practices"*

## **The B.C. Tel Group** **BUSINESS TELECOM** **EQUIPMENT (BTE)**



*E. Lynn  
Patterson*

The appointment of Lynn Patterson as Vice-President and General Manager of Business Telecom Equipment recognizes the growing role BTE plays in the competitive activities of B.C. Tel.

### ***BTE — Industry Leader***

Since its formation as a division of B.C. Tel four years ago, BTE has become the premier supplier of data and voice products and services in British Columbia and offers the largest single source of voice and data equipment in the province.

Its products, from leading Canadian and international manufacturers, include business telephone systems, personal computers and software packages, integrated data and voice products, and business terminal equipment.

Anticipating the second and growing wave of office automation, BTE has secured exclusive distribution rights in B.C. and is the first supplier in Canada to offer the world's first truly integrated data and voice office automation system — the Meridian DV-1. BTE is also a major distributor of the Alexander-Plus family of software products which offers enhanced voice communication, sophisticated data communications, electronic mail and information services, time and event management, and electronic communication.

BTE consolidated its position as industry leader in 1985

by honing the skills of its people to meet and outpace competition. The 'winback' from the competition of such major accounts as Canada Post and Revenue Canada demonstrated the value of its customer-oriented philosophy and practices.

### **CANTEL LEASING LIMITED**

Cantel Leasing offers its services to customers who wish to purchase their telecommunications equipment on a financed basis — an extension of the B.C. Tel Group's efforts to provide complete service and satisfaction to its customers.

### ***B.C. Cellular***

B.C. Tel introduced cellular mobile radio service to British Columbia early in 1986 with the formation of the B.C. Cellular division of Cantel Leasing Limited.

Cellular telephone service combines computer switching and high frequency radio transmissions to permit users to make calls on mobile telephones and maintain the connection during travel. Cellular mobile phones are expected to be a valuable business tool of the '80s and it is B.C. Tel's intention to participate fully and vigorously in this market.

This service is offered initially in the Vancouver-Lower Mainland and Victoria areas and will be expanded to other areas of B.C. Tel's operating territory as demand increases.

### **CANADIAN TELEPHONES & SUPPLIES LTD. (CT&S)**

Many of the major projects mentioned earlier in this report involved substantial activity by Canadian Telephones & Supplies personnel.

The B.C. Tel Group relies on CT&S for the installation of many of the sophisticated items of telecommunications equipment that form part of the network or of the various product lines. The ability to call on the efficient, expert services of CT&S adds to the competitive advantage and premium value the B.C. Tel Group is able to offer present and potential customers.

### ***Telecommunication Services International (TSI)***

A division of CT&S, Telecommunication Services International, has become an international marketing resource for a number of services and products of the B.C. Tel Group.

For the most part, the product being marketed is the specialized one of providing experience, training and expert manpower to countries with little or no background in modern telecommunications.

TSI's concentration on Pacific Basin markets is beginning to pay dividends. In 1985, a contract to supply — over a five year period — some 500,000 lines of recently displaced step-by-step equipment and to supervise the installation of the equipment was arranged with the People's Republic of China.

TSI is also testing the markets in Indonesia, Thailand and Sri Lanka, as well as in special areas in Greece and Finland.

### **MICROTEL LIMITED**

For Microtel, one of Canada's advanced telecommunication marketing and supply companies, 1985 was an arduous year which ended, deservedly, on a very positive note.

The year culminated in the award to the CANAC-Microtel partnership of a contract to supply, install, maintain and operate the satellite ground station network for communications throughout Canada's North Warning System at an installed cost of \$268 million. This modernization of the old Distant Early Warning radar system will assist in the defence of Canada's north.

In the second half of 1985, Microtel's Atlanta, Georgia, sales office obtained repeat-order-oriented contracts with SPACETEL, System 51, Transmission products and DAXCON — a significant success in this most competitive market place.

Microtel Pacific Research Limited (MPR) programs are now



## *"...a growing confidence in Microtel..."*

tightly coupled to market-oriented products. New designs in satellite ground station products complement the highly successful SPACETEL which now serves telephone operating companies across Western Canada and in the Northwest Territories. SPACETEL penetrated the U.S. market for the first time in the last quarter of 1985 with sales to Spacenet — one of the leading satellite-applications providers in the United States.

DAXCON — Digital Signal Management System — was introduced in 1985 and is selling in Canada and the United States and being tested offshore. MPR standardized Microtel's System 51, Telecom Systems Management product in 1985 and this product is now selling offshore and in the United States. It is the basis for TRIMMS — a country-wide system for monitoring and controlling Canada's long distance telecommunications network.

The award of the North Warning System contract; a memorandum of understanding with the federal Department of Industrial Expansion for \$20 million in research and development projects; the acceptance of SPACETEL in the United States and the offshore acceptance of Microtel's newer products reflect a growing confidence in Microtel and its associated companies on the part of telephone operating companies and various government organizations. This success is the direct consequence of the cooperative developments of B.C. Tel operations personnel, in-house research and development and good marketing/supplier relationships.

*The directors wish to commend the employees of the B.C. Tel Group for the high level of community support they have demonstrated throughout the year.*

*Whether it was an individual act of bravery such as that of Mr. Dobie of the Columbia Area or*

*the collective sacrifice of income in the form of contributions to the Telephone Employees Community Fund and other worthwhile causes, the actions of our employees convey a clear message of caring for their fellow citizens and their communities.*

*In many instances, our employees have responded with excellence and dedication to restore or maintain the essential service our network provides.*

*The directors wish to record their appreciation and shared pride in these examples of employee commitment and contribution to the broader community.*

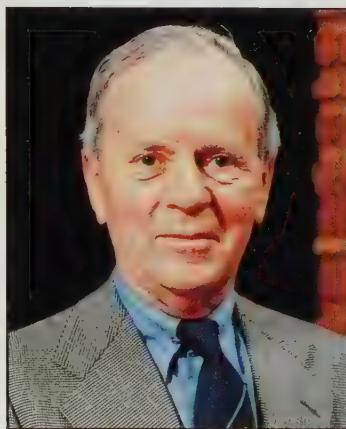
### **Board of Directors' Changes**

Changes in the membership of the Company's Board of Directors were announced at the annual general meeting, held on March 21, 1985. Barbara J. Rae was elected to the Board to fill the vacancy created by the retirement of W. Thomas Brown.



Barbara J.  
Rae

### **RETIREMENTS**



Hugh R.  
Stephen

Hugh R. Stephen will retire as a director of British Columbia Telephone Company, effective March 20, 1986.

Mr. Stephen, who was elected to B.C. Tel's board in 1973, has had a distinguished career in business and in many aspects of public service in Victoria. He served first as alderman and then for three years (1967-1969) as mayor of the City of Victoria.

Following an early career as a journalist in his native Britain and six years of wartime service with the Canadian Army, Mr. Stephen established a successful laundry and dry-cleaning business in Victoria and became active in the cultural and civic life of that city. He has served as vice-chairman of the Victoria Advisory Planning Commission; president of the Victoria Art Gallery and the Victoria Chamber of Commerce; a director of the Victoria Conservatory of Music and chairman of the Board of Governors of the University of Victoria.

During his thirteen-year service on the board of B.C. Tel, Mr. Stephen consistently contributed the benefits of his wide-ranging experience and keen insight to board deliberations. His fellow directors herewith record their appreciation of his most valuable contributions to the Company.



Gilbert F.  
Auchinleck

After almost forty years of service with B.C. Tel, Mr. Auchinleck elected retirement effective December 31, 1985. At the time of his retirement he was vice-president technical support and had held vice-presidential responsibilities with B.C. Tel



since 1970 when he was appointed vice-president staff (operations) followed by appointments as vice-president and general manager Coastal Area, vice-president service and vice-president network services.

Mr. Auchinleck joined B.C. Tel in 1946 following wartime service and his earlier graduation from U.B.C. in electrical engineering. During his years of service with B.C. Tel, Mr. Auchinleck made significant contributions to the progressive development of the Company, accomplishments which the board herewith recognizes with gratitude.

## Looking Ahead

The principal economy affecting the B.C. Tel Group — that of its home province — should experience a modest rate of growth in 1986, fuelled to a considerable extent by Expo 86. In the longer term, there is an urgent need to reduce the provincial economy's dependence on the resource industries as the principal engine of growth. That will require a strong secondary manufacturing element in the economy, an expanding service sector and a recognition on the part of government and industry of the necessity for long range planning and commitment.

The announcement of the founding of the B.C. Advanced Systems Institute is a welcome indication of such planning and commitment. The institute will promote high-level research in selected areas of computing, microelectronics, artificial intelligence and robotics to provide an added and essential layer to the present infrastructure of the information economy.

Already, developments in the information economy are calling for strategic planning of the highest order within the telecommunications industry. The eventual convergence of communications, computing and information management will produce what will be, in effect, a new communications medium. That

has already occurred in the business office and in some aspects of our network activities with the integration of voice and data, but the full consequences of a total integration have yet to emerge in sufficient detail for completely accurate assessment or planning.

However, we are taking practical steps to ensure that we will have the facilities which will be required when an integrated services digital network (ISDN) becomes a reality. This will be a digital network with signalling, switching and transport capabilities supporting a wide range of customer services — simultaneous voice, data and image services — over a single physical medium — copper or fibre.

The planned addition of seven GTD-5 base units and 26 remote switches and remote line units in 1986, plus an extension of the use of fibre optics in our system will place B.C. Tel even more firmly in the forefront in the application of digital technology and provide an improved base for our competitive efforts.

We have, for example, prepared a plan to connect selected office buildings and businesses with high calling volumes with their respective central telephone offices by means of fibre optics technology.

The directors are confident that the people resources of the B.C. Tel Group will prove to be more than adequate in meeting the challenges which will come from the evolution of the integrated services digital network concept as well as those challenges posed by new and expanding competition.

In anticipation of competition or when faced with new threats to the revenue-producing sectors of the Company, we will exploit the unique premium values B.C. Tel offers. Marketing events in 1985 offer heartening evidence that many customers who sampled the offerings and services of competitors can be won back to the B.C. Tel Group. B.C. Tel's reputation, its long experience in telecommunications, its province-wide facilities and the expertise and enthusiasm of its

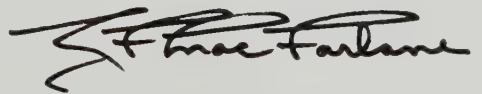
people ensure that this trend will continue and grow.

We will continue to require substantial funds for investment in improvements and extensions related to our network. As was the case in 1985, we anticipate that the majority of these funds can be raised from internal sources. For the balance, we will look to financing from outside sources. To ensure that we can present attractive investment opportunities to the market, we must continue and expand 1985's revenue-producing activities and be even more successful in terms of expense management.

The years ahead will be important ones in the evolution of this Company. We must be able to cope with the changes in the basic nature of the telecommunications industry and plan for a successful, long-term accommodation of those changes. At the same time, we must be able to respond quickly and effectively to developments that occur in the short term. The creation of B.C. Cellular exemplifies the Company's abilities in these circumstances.

The directors are confident that the Company's strategies now in place and evolving will enable the B.C. Tel Group to attain a reasonable share of the benefits inherent in a growing communications industry and market and a growing economy. The basis of this confidence is the quality, energy and enthusiasm of the employees who will implement these strategies. The directors wish to record their appreciation of the dedication and spirit displayed by our employees.

On behalf of the Board of Directors,



Gordon F. MacFarlane  
Chairman and Chief Executive Officer

Burnaby, British Columbia  
February 12, 1986



**A Theatre for the World...**  
The colourful pavilions and attractions of Expo 86 form a glittering stage-set against the panoramic backdrop of downtown Vancouver, Burrard Inlet and the Coast mountains.

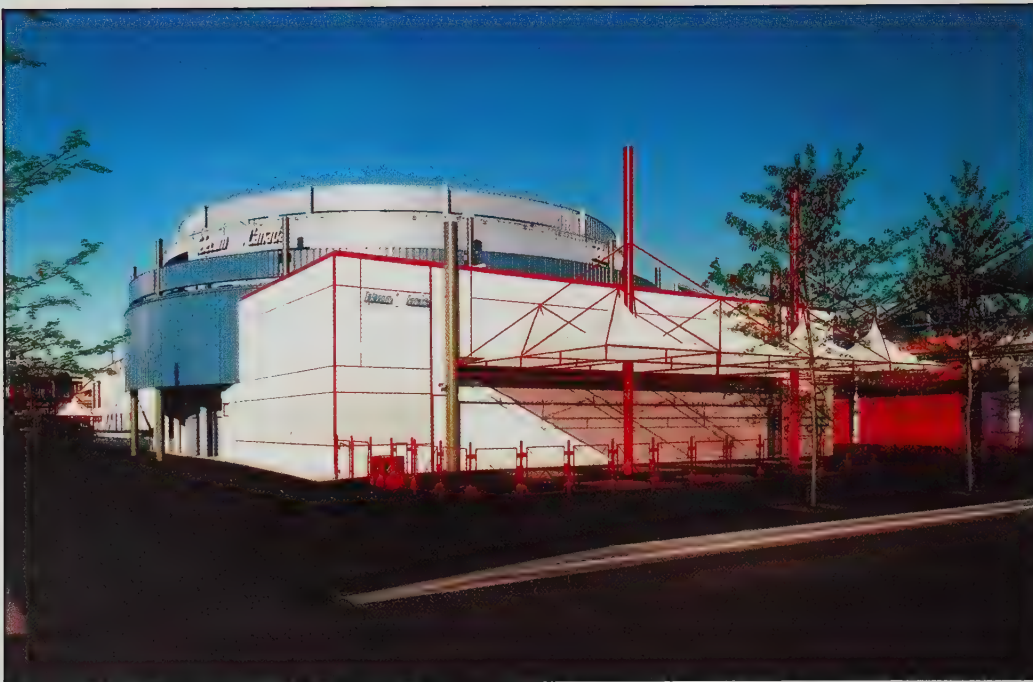
EXPO  
86











*The Telecom Canada Pavilion*



*Some of the Canadians featured in the filmed "Portraits" vignettes are shown below.*

## Images of Canada ... Portraits of Canadians

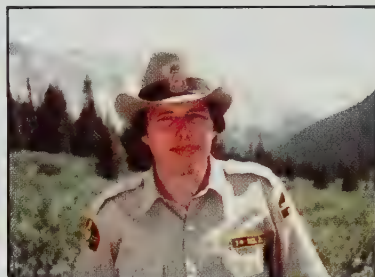
The Telecom Canada Pavilion is sponsored by B.C. Tel and the nine other members of Telecom Canada as a means of ensuring that Canada's major telecommunications network will attract the focus of the world's attention throughout the five-and-a-half month spectacle of Expo 86.

Photos on these pages give an indication of the Pavilion's main attraction — a new 20-minute film, "Portraits of Canada — Images du Canada". The film, commissioned by Telecom Canada, displays some of our country's magnificent scenery and provides a unique series of visits with individual Canadians at home, at work and at play. Audiences of up to one thousand people at a showing will experience the spectacular effect of the Circle-Vision 360 cinematography which surrounds the spectators with sight and sound.

Following the film, visitors enter the Exhibit Hall where inter-active displays identify and explain telecommunications technology including digital transmission, fibre optics and satellites. One display takes visitors on a simulated journey through the telecommunications network.

### *The Twelve Film Locations are:*

- Arctic Scene — Igloolik, Northwest Territories
- Space Scene — National Aeronautics and Space Administration (NASA)
- Prairie Christmas Scene — East of Saskatoon, Saskatchewan
- Rancher and Rodeo Scene — South of Calgary, Alberta
- Atlantic Fishing Scene — Bay De Verde, Newfoundland
- Rapattack Scene (Forest Fire) — Salmon Arm, British Columbia
- Cycling Scene — Montreal, Quebec
- Indian Fishing Scene — Moricetown, British Columbia
- Quebec City Scene — Quebec City, Quebec
- Bush Pilot Scene — Near Sudbury, Ontario
- Ballet Scene — Toronto, Ontario
- Rocky Mountain Scene — Banff, Alberta





*Igloolik, a hamlet in the Northwest Territories, was the setting for a 'portrait' featuring Canadian Inuit.*



*The people of Bay De Verde celebrate the start of a new fishing season.*



*A family Christmas celebration in a prairie farmhouse was filmed in Saskatchewan.*



*Real-life ranching activities in the foothills of Alberta and the excitement of the Calgary Stampede highlight this vignette.*



*Space travel takes the audience out among the stars aboard a space shuttle equipped with the famous "Canadian Arm".*



*The famed Rapattack team of forest-fire fighters rappels into a fire in British Columbia.*





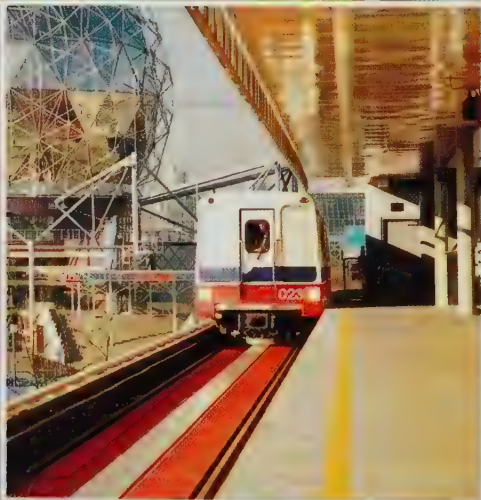
## Canada Pavilion

Canada Pavilion, the largest and most spectacular of all the international pavilions at Expo 86, has the appearance of a immense ocean liner anchored in Vancouver's spectacular harbour setting.

During Expo 86, the Canada Pavilion will offer visitors an innovative blend of high technology and imaginative entertainment — a showcase for Canada's achievements in transportation, communication and culture. Canada Place, the site

of the Canada Pavilion, also contains a 15-storey hotel, a World Trade Centre, a cruise-ship terminal, theatres and restaurants — all of which will be active during the world exposition.

*Pictured below — a sample of the attractions of Expo 86. From people movers to information movers, the exposition covers transportation and communication from the past, in the present and for the future. One of B.C. Cellular's new cellular mobile phones in use on the Expo 86 site is shown in the lower right picture.*





# Financial and Shareholder Information

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## Financial Review

### CONSOLIDATED EARNINGS

Consolidated earnings in 1985 amounted to \$97.5 million or \$2.21 per average ordinary share, compared to earnings of \$82.1 million or \$2.07 per share in 1984.

These results, which reflect an 11.3% increase in the average number of ordinary shares outstanding in 1985, were a positive achievement in the circumstances that prevailed. The province's economic recovery that began to materialize in 1985 failed to come up to expectations and it was not until the latter part of the year that a gradual improvement in B.C.'s economic growth began to contribute in some measure to the Company's own revenue growth and earnings.

### TELECOMMUNICATIONS OPERATIONS

#### Operating Revenues

Operating revenues increased to \$1,217.0 million or by \$69.2 million in 1985, over 1984 revenues of \$1,147.8 million. The major factors influencing revenue growth in 1985 were:

- a 6.7% increase in long distance calling volumes, coupled with a 1.9% increase in the average revenue per message,
- a 3.4% gain in customer lines in service, and
- rate increases implemented May 1, 1985 which contributed to additional local and long distance revenues of \$19.1 million in 1985.

The result was a 3.0% increase in local service revenues, from \$445.8 million in 1984 to \$459.0 million in 1985, and a 9.5% increase in long distance service revenues which totalled \$705.5 million in 1985 compared with \$644.7 million in 1984.

#### Operating Expenses

In total, operating expenses for 1985 amounted to \$876.0 million or 2.9% more than in 1984. A 7.8% increase in depreciation expense was offset in part by a \$3.7 million or 6.3% reduction in property taxes which stemmed from the provincial government's tax reform package aimed at stimulating the province's economic renewal.

Controllable operating expenses increased \$10.3 million or by 1.8% for the year, demonstrating the effectiveness of continuing efforts throughout the Company to curtail all but essential expenditures during 1985. The limited increase also reflects a 2.4% reduction in the workforce since the end of 1984, through attrition and an early retirement incentive plan, as well as the continuing restraint on hiring.

### MANUFACTURING OPERATIONS

#### Sales

Annual sales of \$167.5 million were reported by Microtel in 1985, 1.7% below 1984 sales of \$170.4 million. The lower sales volume reflects the elimination of some unprofitable product offerings through 1984-1985, offset by increased sales of digital switching equipment, custom manufactured items and new products such as Spacetel.

#### Costs and Expenses

Costs and expenses totalled \$167.2 million in 1985 or 4.2% below the 1984 total of \$174.6 million. Product margins returned to normal levels by year-end following a period of product upgrades and new product introduction. Certain nonrecurring costs related to the program of restructuring Microtel for future growth are also included, but these were more than offset by nonrecurring gains derived from the recovery of surplus pension plan contributions and a gain on the disposal of property. These items amounted to a net gain of \$10.8 million, details of which are contained in Note 4.



## DEBT SERVICE COSTS

Consolidated debt service costs in 1985 totalled \$116.3 million, or 8.3% higher than the 1984 total of \$107.4 million.

With 1985 short term interest rates somewhat below those prevailing in 1984, a higher level of borrowing during 1985 did not add significantly to total interest costs for the year; nor did the maturity of \$15 million of low interest bonds in August 1985, followed in November by the issue of \$125 million Series AL bonds with a coupon rate of 11.35%.

The increase in total debt service costs in 1985 was more a result of the reduced capitalization of interest costs of funds used during construction. This offsetting allowance for funds was reduced from \$19.6 million in 1984 to \$13.7 million in 1985.

## INCOME TAXES

Income tax expense increased by 32.4% in 1985, to \$109.1 million compared with \$82.4 million in 1984. The primary reasons for the increase were the higher taxable earnings achieved in 1985, coupled with an increase in the tax rate for the year, which increased from 52.0% in 1984 to 52.9% in 1985 as a result of changes in the federal government's tax legislation.

## NET EARNINGS AND DIVIDENDS

Consolidated net earnings of \$115.9 million in 1985 were up from 1984 net earnings of \$102.5 million.

Allowing for dividends on preferred shares, down to \$18.4 million from \$20.4 million in 1984 because of preferred share redemptions during 1985, net earnings for ordinary shares amounted to \$97.5 million compared to 1984 net earnings of \$82.1 million.

The total ordinary share dividend payout in 1985 reflected both the increase in the average number of shares outstanding during the year and the full-year effect of the current quarterly dividend rate of \$.43 per share that began in mid-year 1984. Ordinary share dividends in 1985 totalled \$76.1 million compared with \$66.1 million in 1984, an increase of 15.1%.

The balance of earnings retained amounted to \$21.4 million in 1985, an increase over 1984 earnings retained of \$16.0 million.

## RATES OF RETURN

The rate of return on average invested capital in 1985 increased to 10.86% from 10.68% in 1984.

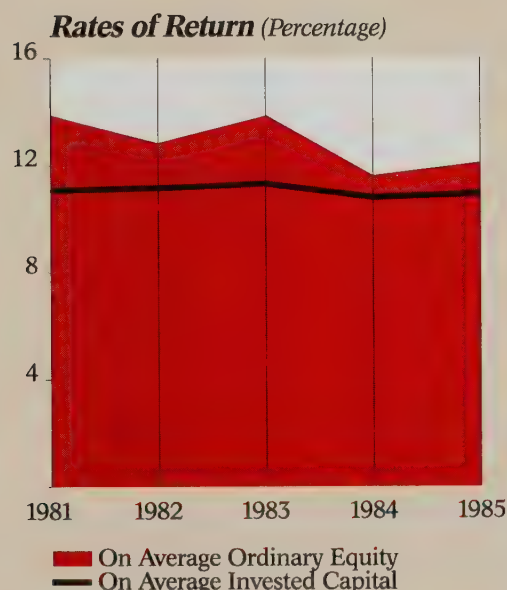
Likewise, the rate of return on average ordinary equity increased to 12.01% from the 1984 return of 11.52%.

## CHANGES IN FINANCIAL POSITION

The internal generation of funds required to finance the construction program increased from 68% in 1984 to 82% in 1985. Both the increase in depreciation, as a non-cash expense item, and the higher amount of income tax deferral in 1985 contributed to the improved internal sourcing of construction funding.

The balance of funds required for the 1985 construction program was secured through external financings. The Series AL First Mortgage Bonds provided \$125 million, while additional equity funds of \$18.6 million were realized through the issue of 910,307 ordinary shares by way of the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan. Offset against these financing funds was the requirement of bond maturities and preferred share redemptions totalling \$42.8 million.

The net effect of these financial changes during 1985 was to reduce the Company's consolidated debt ratio to 51%.





## Management Report

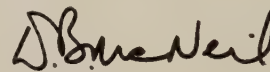
### To Our Shareholders:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The Company's independent auditors, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these financial statements present fairly the Company's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included below.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.



D. B. McNeil  
Vice-President – Corporate  
Finance and Treasurer

## Auditors' Report

### To the Shareholders of British Columbia Telephone Company

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as of December 31, 1985 and 1984, and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements appearing on pages 25 to 38, inclusive, present fairly the financial position of the Company and subsidiaries as of December 31, 1985 and 1984, and the results of their operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada  
January 24, 1986

ARTHUR ANDERSEN & CO.,  
CHARTERED ACCOUNTANTS



# Consolidated Statement of Earnings

For the years ended December 31

		1985	1984
		(\$ Millions)	
Telecommunications Operations			
	Operating revenues (Note 2)	\$1,217.0	\$1,147.8
	Operating expenses (Note 3)	876.0	851.3
	Telecommunications operating earnings	341.0	296.5
Manufacturing Operations			
	Sales	167.5	170.4
	Costs and expenses		
	Cost of sales	148.2	146.0
	Selling and administrative expenses	29.8	28.6
	Less — Other income — net (Note 4)	10.8	—
		167.2	174.6
	Manufacturing operating earnings (loss)	.3	(4.2)
Combined Operating Earnings		341.3	292.3
	Debt service costs — net (Note 5)	116.3	107.4
	Earnings before income taxes	225.0	184.9
	Income taxes (Note 6)	109.1	82.4
	Net earnings	115.9	102.5
	Less — Preference and preferred share dividends	18.4	20.4
Ordinary Share Earnings		\$ 97.5	\$ 82.1
Earnings per Ordinary Share			
	Basic	\$ 2.21	\$ 2.07
	Fully diluted	\$ 2.20	\$ 2.06
Average Ordinary Shares Outstanding		44,204,000	39,728,000

# Consolidated Statement of Retained Earnings

For the years ended December 31

		1985	1984
		(\$ Millions)	
	Balance at beginning of year	\$ 234.7	\$ 219.8
	Ordinary share earnings	97.5	82.1
		332.2	301.9
	Less — Ordinary share dividends	76.1	66.1
	— Share issue expense	—	1.1
	Balance at end of year	\$ 256.1	\$ 234.7

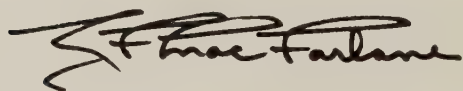


# Consolidated Balance Sheet

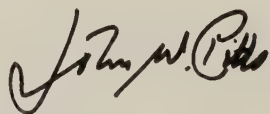
As of December 31

<b>Assets</b>		<b>1985</b>	<b>1984</b>
		(\$ Millions)	
<b>Telecommunications Property, at cost</b>	Buildings, plant and equipment (Note 9b)	\$3,550.4	\$3,348.7
	Less — Accumulated depreciation	1,131.3	1,096.9
		2,419.1	2,251.8
	Land	27.2	26.9
	Property under construction	159.7	233.5
	Material and supplies	38.7	28.7
		2,644.7	2,540.9
<b>Manufacturing Property, at cost</b>	Plant and equipment	80.7	78.8
	Less — Accumulated depreciation	37.6	34.5
		43.1	44.3
		2,687.8	2,585.2
<b>Investments and Other Assets, at cost</b>	Telesat Canada	3.3	3.3
	Instalment contracts and other	24.8	22.0
		28.1	25.3
<b>Current Assets</b>			
	Accounts receivable	225.4	204.7
	Inventories (Note 7)	41.3	59.5
	Prepaid expenses	14.4	26.3
		281.1	290.5
<b>Deferred Charges</b>			
	Unrealized deferred losses on foreign exchange, less amortization	12.7	11.2
	Cost of issuing debt securities, less amortization	10.5	10.4
		23.2	21.6
		\$3,020.2	\$2,922.6

Approved by the Directors,



Director



Director



**Capitalization and Liabilities****1985**      **1984**  
(\$ Millions)**Capitalization**

## Equity (Note 8)

Ordinary shares

**\$ 845.3****\$ 805.1**

Preference and preferred shares

**242.1**

262.9

**Total equity****1,087.4**

1,068.0

Long-term debt (Note 9)

**1,101.3**

1,096.5

**2,188.7**

2,164.5

**Current Liabilities**

Cheques issued in excess of bank balances

**30.5**

30.4

Short-term obligations (Note 10)

**36.2**

49.2

Accounts payable and accrued liabilities

**201.4**

182.7

Due to affiliated companies

**1.4**

.8

Income taxes payable

**40.5**

1.2

Dividends payable

**21.8**

21.5

Unearned revenues

**45.3**

47.1

**377.1**

332.9

**Income Taxes Deferred****454.4**

425.2

**\$3,020.2****\$2,922.6**



# Consolidated Statement of Changes in Financial Position

For the years ended December 31

	1985	1984
	(\$ Millions)	
<b>Sources of Cash</b>		
<i><b>Internally generated</b></i>		
Ordinary share earnings	\$ 97.5	\$ 82.1
Add (deduct) items not requiring cash		
Depreciation	264.0	243.0
Income taxes deferred	29.2	9.2
Allowance for funds used during construction	(13.7)	(19.6)
Other, net	1.4	(10.2)
	378.4	304.5
Less — Ordinary share dividends	76.1	66.1
	302.3	238.4
Decrease (increase) in working capital (Note 12)	66.6	(49.9)
<i><b>Financing proceeds</b></i> , net of related costs and expenses		
Ordinary shares issued	18.7	109.6
Decrease in short-term obligations before current maturities and reclassification	(133.1)	(24.2)
Long-term debt	145.6	78.3
	31.2	163.7
Less — Redemptions, conversions or current maturities of long-term debt and preferred shares	42.9	29.3
	(11.7)	134.4
<b>Total sources of cash</b>	\$ 357.2	\$ 322.9
<b>Application of Cash</b>		
<i><b>Capital expenditures</b></i>		
Gross capital expenditures	\$ 368.5	\$ 352.4
Increase in material and supplies	10.0	2.7
	378.5	355.1
Less — Salvage value of plant retired, net	7.6	12.6
— Allowance for funds used during construction	13.7	19.6
<b>Total application of cash</b>	\$ 357.2	\$ 322.9
<b>Working Capital Deficiency</b>		
Working capital deficiency, beginning of year	\$ 42.4	\$ 90.2
Decrease (increase) in working capital (Note 12)	66.6	(49.9)
(Decrease) increase in short-term obligations	(13.0)	2.1
<b>Working capital deficiency, end of year</b>	\$ 96.0	\$ 42.4



# Notes to Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

British Columbia Telephone Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts.

### (a) Earnings Per Ordinary Share

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the period. Fully diluted earnings per ordinary share reflect the potential full conversion of the \$2.32 convertible subordinate preferred shares.

### (b) Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Microtel Limited (together with its wholly-owned subsidiaries, Viscount Industries Limited, and Microtel Pacific Research Limited), North-west Telephone Company (together with its wholly-owned subsidiary Cantel Leasing Ltd.) and Canadian Telephones and Supplies Ltd. The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to \$700,000 in 1985 (\$700,000 — 1984).

All significant intercompany transactions have been eliminated except for purchases of telecommunications equipment and supplies by British Columbia Telephone Company from Microtel Limited (Microtel) which are capitalized as equipment in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings (Note 15). To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and retained earnings.

### (c) Telecommunications Property

Telecommunications property is recorded at historical cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction (AFC) is included in income by way of an offset against debt service costs. The capitalization rate (defined by the CRTC as the rate of return on average invested capital earned by the utility during the preceding fiscal year) was 11.17% in 1985 (11.18% — 1984). Such income is not realized in cash currently but will be realized over the service life of the property.

No gain or loss is recognized in the statement of earnings when depreciable telecommunications property is retired. The original cost of the property is either charged to accumulated depreciation or, when the property is reusable, to material and supplies.

### (d) Depreciation

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.41% for 1985 (7.33% — 1984).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis. The composite depreciation rate was 8.90% for 1985 (6.54% — 1984).



**1. Summary of Significant Accounting Policies** *(continued)*

**(e) Investment in Telesat Canada**

The investment in 330,000 common shares of Telesat Canada, representing 5.5% of the total outstanding shares, is recorded at original cost. There is no quoted market value for this investment, however, its estimated book value was \$8,000,000 as at December 31, 1985 (\$7,700,000 — 1984).

**(f) Income Taxes**

The Company and its subsidiaries use the deferral method of income tax allocation by providing deferred income taxes on all timing differences between accounting income and taxable income except for AFC where no deferred tax is provided as allowed by the CRTC. *(Note 6)*

**(g) Translation of Foreign Currencies**

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date.

Currency gains and losses are included in net earnings for the year except for gains and losses on long-term debt which are amortized over the remaining periods to maturity of the related issues. *(Note 5)*

The Company's total foreign currency indebtedness as at December 31, 1985 was \$75,700,000 (U.S.) (\$79,100,000 U.S. — 1984).

**(h) Research and Development**

Product and service development expenditures which in management's opinion result in identifiable telecommunications operations assets have been deferred. Such deferred expenditures amounted to \$5,400,000 at December 31, 1985 (\$2,200,000 — 1984) and will be amortized over the expected life of the related products and services.

All other research expenditures for development and improvement of new and existing products and services are expensed as incurred. The amount expensed in 1985 was \$17,300,000 (\$20,800,000 — 1984).

**(i) Leases**

Leases are classified as capital or operating depending upon the terms of the contracts.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the life of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. Where the Company is the lessor, it acts as a financing intermediary. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Income is recognized over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with existing depreciation policy.

Assets, liabilities and amortization related to these leases are not material in amount.

**2. Operating Revenues — Telecommunications Operations**

	1985	1984
	(\$ Millions)	
Local service	\$ 459.0	\$ 445.8
Long distance service	705.7	644.7
Other	68.1	70.7
	1,232.8	1,161.2
Less — uncollectible operating revenues	15.8	13.4
	\$1,217.0	\$1,147.8



<b>3. Operating Expenses – Telecommunications Operations</b>		<b>1985</b> (\$ Millions)	<b>1984</b>
Operations	\$ 569.3	\$ 559.0	
Depreciation	250.6	232.5	
Provincial, municipal and other taxes	56.1	59.8	
	<b>\$ 876.0</b>	<b>\$ 851.3</b>	
<b>4. Other Income – Net – Manufacturing Operations</b>		Other income of \$10.8 million is the net of non-recurring income and expense items. Included are the withdrawal of surplus pension plan contributions (\$22.7 million) and a gain on disposal of property (\$3.2 million) netted against non-recurring costs (\$15.1 million) relating to downsizing and relocation activities.	
<b>5. Debt Service Costs</b>		<b>1985</b> (\$ Millions)	<b>1984</b>
Interest on long-term debt	\$ 118.8	\$ 118.2	
Other interest	9.6	7.5	
Amortization of unrealized and deferred losses on foreign exchange	4.8	4.3	
Amortization of issue costs	1.3	1.3	
	<b>134.5</b>	<b>131.3</b>	
Less — Allowance for funds used during construction	13.7	19.6	
— Service charges on overdue accounts	4.5	4.3	
	<b>\$ 116.3</b>	<b>\$ 107.4</b>	
<b>6. Income Taxes</b>		<b>1985</b> (\$ Millions)	<b>1984</b>
Currently payable — Federal	\$ 72.7	\$ 51.9	
— Provincial	30.1	23.2	
Deferred	6.3	7.3	
	<b>\$ 109.1</b>	<b>\$ 82.4</b>	
A reconciliation of the Canadian statutory income tax rate to the effective income tax rate is as follows:		<b>1985</b>	<b>1984</b>
Combined basic federal and provincial income tax rate	52.9%	52.0%	
Allowance for funds used during construction	(3.2)	(5.5)	
Other	(1.2)	(1.9)	
Effective income tax rate per Consolidated Statement of Earnings	<b>48.5%</b>	<b>44.6%</b>	



**7. Inventories –  
Manufacturing  
Operations**

Inventories are valued at the lower of cost and net realizable value:

	1985	1984
	(\$ Millions)	
Finished goods	\$ 6.4	\$ 6.9
Work in process	30.7	47.5
Raw materials and other	4.2	5.1
	\$ 41.3	\$ 59.5

**8. Equity**

**(a) Details of Shareholders' Equity**

	1985	1984
	(\$ Millions)	
<b>Ordinary</b>		
Ordinary Shares without par value:		
44,604,381 shares outstanding		
(43,688,620 — 1984)	\$ 585.4	\$ 566.7
Retained earnings	256.1	234.7
Contributed surplus (Note 8c)	3.8	3.7
	845.3	805.1

	Redemption Premium (Note 8e)		
<b>Preference and Preferred</b>			
\$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares			
Par Value of \$25 Each	1.6%	.6	.7
<b>Cumulative Preference and Preferred Shares</b>			
Par Value of \$100 Each			
6% Preference	5.0%	1.0	1.0
4 <sup>3</sup> / <sub>8</sub> % Preferred	4.0%	6.0	6.0
4 <sup>1</sup> / <sub>2</sub> % Preferred	4.0%	5.0	5.0
4 <sup>3</sup> / <sub>4</sub> % Preferred	5.0%	7.5	7.5
4 <sup>3</sup> / <sub>4</sub> % Preferred (Series 1956)	4.0%	7.5	7.5
5.15% Preferred	5.0%	12.0	12.0
5 <sup>3</sup> / <sub>4</sub> % Preferred	4.0%	10.0	10.0
6% Preferred	5.0%	4.5	4.5
Par Value of \$25 Each			
4.84% Preferred	4.0%	20.0	20.0
6.80% Preferred	6.0%	10.0	10.0
7% Preferred	—	20.0	22.5
7.04% Preferred	5.75%	20.0	20.0
7.40% Preferred	4.0%	41.0	41.7
7.65% Preferred	3.0%	27.0	28.0
10.16% Preferred	—	—	16.5
11.24% Preferred (Not redeemable before June 15, 1990)	5.0%	50.0	50.0
		242.1	262.9
<b>Total Equity</b>		\$1,087.4	\$1,068.0

**(b) Authorized Capital**

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of \$1,250,000,000. As at December 31, 1985 the total approved share capital of the Company was \$1,000,000,000 (\$1,000,000,000 — 1984).



## 8. Equity (continued)

### (c) Changes During 1985

#### Ordinary shares

- There were no public issues of ordinary shares in 1985. (4,834,752 shares for \$98,508,000 — 1984).
- 5,454 shares were issued during 1985 on conversion of 2,727 — \$2.32 convertible subordinate preferred shares (29,166 on conversion of 14,583 shares — 1984).
- 591,174 shares (294,017 — 1984) were issued during 1985 for \$12,937,000 (\$5,753,000 — 1984) through the Dividend Reinvestment and Share Purchase Plan.
- 319,133 shares were issued during 1985 through the Employee Share Purchase Plan at a price of \$17.79 per share (354,868 shares at a price of \$17.25 per share and 406 shares at a price of \$17.79 per share — 1984).

#### Preferred shares

- the Company redeemed 100,000 — 7% preferred shares in 1985 and 1984 in the amount of \$2,500,000.
- the Company redeemed 30,000 — 7.4% preferred shares in 1985 (60,000 — 1984) in the amount of \$750,000 (\$1,500,000 — 1984). The Company had redeemed an additional 30,000 shares in 1984 in the amount of \$750,000 to reduce its 1985 purchase obligations.
- the Company redeemed 40,200 — 7.65% preferred shares in 1985 and 1984 in the amount of \$1,000,000. The Company had redeemed an additional 20,100 shares in 1984 in the amount of \$500,000 to reduce its 1985 purchase obligations.
- the Company redeemed 660,000 — 10.16% preferred shares in 1985 (60,000 — 1984) in the amount of \$16,665,000 (\$1,500,000 — 1984). These redemptions resulted in \$69,000 of contributed surplus (\$615,000 — 1984).

### (d) Ordinary Shares Reserved

At December 31, 1985 the following shares remained reserved:

- 1,325,399 shares under the Company's Employee Share Purchase Plan, the terms of which are determined prior to an offering to employees. The shares reserved will remain so until the next offering.
- 605,144 shares for issuance under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on October 28, 1982. The purchase price for the plan is based on the average market price for the five days preceding the investment date.
- 48,342 ordinary shares for the conversion of the \$2.32 convertible subordinate preferred shares. The \$2.32 convertible preferred shares are convertible on the basis of two ordinary for each preferred share at any time prior to July 1, 1986.

### (e) Preferred Share Redemption Requirements and Purchase Obligations

Redemption requirements or purchase obligations apply to five issues:

- \$2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase specified quantities of such shares in the open market at a price not exceeding \$25 per share, to the extent that they are available in each 12-month period, and (b) redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.
- 7% preferred shares are subject to redemption of 100,000 shares, at \$25 per share, each year until 1985, with the balance of 800,000 shares due in 1986.
- 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period 60,000 shares at a price not exceeding \$25 per share excluding costs of purchase.
- 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period 40,200 shares at a price not exceeding \$25 per share excluding costs of purchase.
- 11.24% preferred shares are subject to (a) a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 3-month period 15,000 shares at a price not exceeding \$25 per share excluding costs of



**8. Equity (continued)**

purchase and (b) a requirement on the part of the Company to redeem on June 15, 1990 any shares tendered on or before May 15, 1990 at a price of \$25 per share. Commencing July 1, 1990 and thereafter, the Company shall make all reasonable efforts to purchase 4% per annum of the shares outstanding immediately after the June 15, 1990 redemption at a price not exceeding \$25 per share excluding costs of purchase.

Other issues are redeemable at the stated redemption premium only at the Company's option.

**9. Long-Term Debt****(a) Details of Long-Term Debt**

	1985	1984
	(\$ Millions)	
British Columbia Telephone Company		
First Mortgage Bonds		
Series I 5¾% due August 1, 1985	\$ —	\$ 15.0
Series J 5¾% due July 15, 1986	20.0	20.0
Series K 5½% due April 15, 1988	20.0	20.0
Series L 6¾% due October 15, 1989	30.0	30.0
Series M 6¾% due March 15, 1991	30.0	30.0
Series N 9½% due April 1, 1990	3.3	3.3
Series O 9½% due November 15, 1992	18.0	18.0
Series P 9½% due November 15, 1992	.5	.5
Series Q 8¼% due March 1, 1994	35.0	35.0
Series S 7⅞% due November 15, 1995	25.0	25.0
Series T 8⅝% due October 15, 1993	40.0	40.0
Series U 8½% due November 1, 1996 (\$20 million U.S. funds)	28.0	26.4
Series V 9% due October 1, 1997	40.0	40.0
Series X 9¼% due April 15, 1998	35.0	35.0
Series Y 11% due January 15, 1996	45.0	45.0
Series AA 10¼% due April 1, 1995	30.0	30.0
Series AC 10½% due February 1, 1982-96 (\$23.2 million U.S. funds)	32.4	32.9
Series AD 10¼% due October 15, 2001	60.0	60.0
Series AE 9.70% due June 15, 1999	50.0	50.0
Series AF 9⅞% due November 1, 2003	75.0	75.0
Series AG 14¼% due April 1, 1986	75.0	75.0
Series AH 16⅜% due April 1, 1987	100.0	100.0
Series AI 17¼% due September 1, 1988	50.0	50.0
Series AK 12¼% due February 15, 1999	70.0	70.0
Series AL 11.35% due November 15, 2005	125.0	—
	1037.2	926.1
Mortgage payable, issued at 12½% due April 30, 1989	11.6	—
Promissory Notes and Bank Loans		
Amount reclassified (Note 10)	23.0	140.0
Issued at varying rates of interest from 9.92% to 15.40% and maturing on varying dates from 1987 to 1991	15.2	9.8
	49.8	149.8
Microtel Limited		
Interest-rate conversion and credit agreements with effective fixed rates of interest		
— 12.1% due 1990	20.0	20.0
— 10.98% due 1992	3.8	—
Other at varying rates of interest from 6.0% to 8.25%	.4	.4
	24.2	20.4



**9. Long-Term Debt** *(continued)*

	1985	1984
	(\$ Millions)	
Amounts due under capitalized leases	19.0	20.1
Total Long-Term Debt	1,130.2	1,116.4
Less – Current maturities <i>(Note 10)</i>	28.9	19.9
<b>Long-Term Debt</b>	<b>\$1,101.3</b>	<b>\$1,096.5</b>

**(b) First Mortgage Bond Issue Requirements**

The Company's telecommunications property is subject to liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1½% of the principal. Company practice has been to pledge additional unmortgaged property. Additional First Mortgage Bond issues also must meet the interest coverage ratio standards specified under the Deed of Trust and Mortgage.

**(c) Redemption/Retraction Provisions**

The First Mortgage Bonds, except for Series AG and AH, may be redeemed at the option of the Company prior to maturity at various premiums to a maximum of 7.65%. Such redemptions cannot be made if the funds borrowed for refunding purposes have an interest cost that is less than the interest cost of the bonds redeemed.

The Series AI Bonds are redeemable at the option of the Company on and after September 1, 1987 at a premium of ½%.

The Series AK Bonds are retractable at the option of the holder on February 15, 1989 and 1994, at which dates the Company has the option to set a new rate of interest or to redeem the bonds.

**(d) Long-Term Debt Maturities**

The Series AC Bonds mature serially in the amount of \$1,710,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining \$6,060,000 (U.S.) matures on February 1, 1996.

Series AG and Series AH are extendable at the holder's option for a further five year term.

The total long-term debt maturities during each of the next five years are:

	(\$ Millions)
1986 <i>(Excluding Series AG)</i>	\$22.4
1987 <i>(Excluding Series AH)</i>	\$ 8.2
1988	\$78.2
1989 <i>(Excluding Series AK)</i>	\$46.2
1990	\$27.2

**(e) Promissory Notes**

The promissory notes are issued to obtain funds for general corporate purposes including the cost of extension and improvements to the plant and properties of the Company.

These borrowings will be repaid from the proceeds of long-term financings.

The Company has long term agreements for revolving loan facilities and at December 31, 1985, the agreements totalled \$172,000,000 (\$140,000,000 – 1984). Drawdowns under the agreements are by way of promissory notes issued at either fixed or floating interest rates for periods of up to five years. Short-term obligations *(Note 10)* have been reduced by \$23,000,000 (\$140,000,000 – 1984) to reflect these arrangements.



**10. Short-Term Obligations**

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1985	1984
	(\$ Millions)	
First Mortgage Bonds, current maturities (Note 9)		
Series I 5¾% due August 1, 1985	\$ —	\$ 15.0
Series J 5¾% due July 15, 1986	20.0	—
Series AC 10½% due February 1, 1986 (\$1,710,000 U.S.)	2.4	2.2
Current maturities of long-term debt of subsidiaries	.1	.1
Amounts due under capitalized equipment leases	6.4	2.6
	28.9	19.9
Bank loans, 10.00% to 15.4% interest	7.4	46.9
Bank loans (\$25,200,000 U.S.), 8.15% to 10.00% interest	35.3	10.2
Promissory Notes, current maturities, 7.9% to 12.75% interest	36.6	109.6
Amounts held under Employee Share Purchase Plan and Dividend Reinvestment Plan	.1	2.6
	108.3	189.2
Less: Short-term investment to be applied to maturing promissory notes	49.1	—
Amount reclassified as long-term debt (Note 9)	23.0	140.0
	\$ 36.2	\$ 49.2

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

**11. Lines of Credit**

At December 31, 1985, the Company had in place aggregate lines of credit totalling \$481,200,000 (\$492,000,000 — 1984). The Company maintains unused lines of credit with chartered banks at least equivalent to the aggregate of promissory notes outstanding.

**12. Working Capital**

Cash provided (applied) by changes in working capital components other than Short-term obligations:

	1985	1984
	(\$ Millions)	
(Increase) decrease in current assets:		
Accounts receivable	\$(20.7)	\$(13.1)
Inventories	18.2	(13.8)
Prepaid expenses	11.9	(14.2)
Other current assets	—	5.8
Increase (decrease) in current liabilities:		
Cheques issued in excess of bank balances	.1	6.6
Accounts payable and accrued liabilities	18.7	14.6
Income taxes payable	39.3	(39.1)
Other current liabilities	(.9)	3.3
	\$ 66.6	\$(49.9)



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### 13. Commitments and Contingent Liabilities

- (a) The Company estimates the construction programs for additional plant and facilities to cost \$358,700,000 in 1986. Substantial purchase commitments have been made in connection with these programs.
- (b) The Company was reassessed by Revenue Canada for the years 1979 and 1980. The notices of reassessment deny certain Scientific Research claims by the Company and require payment of additional income taxes and interest thereon of \$1,500,000 for those years. If the years subsequent to 1980 had been included in the reassessment, the additional tax and interest would cause retained earnings to be reduced by a further \$9,500,000.

In the opinion of tax counsel, the Company has a strong basis to reverse the 1979 and 1980 reassessments and it is therefore treating the \$1,500,000 as recoverable in the Balance Sheet at December 31, 1985. Consequently, no provision has been made in the Company's accounts at December 31, 1985 for any additional taxes relative to Scientific Research subsequent to 1980.

- (c) A competitive bid was made by the members of Telecom Canada (of which the Company is one) to acquire the assets of Teleglobe Canada — Canada's international telecommunications carrier. Teleglobe Canada was offered for sale by the federal government through the Canada Development Investment Corporation as part of its move to privatize some federal government holdings. The vendor has not yet determined the successful bidder.
- (d) The Company has provided guarantees regarding the supply of equipment for the North Warning System project by its subsidiary company, Microtel. The guarantees provide for the full performance and fulfillment of all obligations arising from the contract.
- (e) See also *Note 9* and *Note 14*

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### 14. Pension Plans

The Company and the Union maintain a number of pension plans covering substantially all employees in both Telecommunications and Manufacturing operations, subject to conditions related to age and period of service.

The Union sponsored pension plans for bargaining unit employees in Telecommunications Operations require the Company to contribute a fixed percentage of employee gross earnings to trustee funds, while the Company pays into trustee funds the annual accrued pension costs for its sponsored plans.

During the year, responsibilities to retirees from Manufacturing Operations were discharged through the purchase of annuities enabling surplus contributions from the pension plans amounting to \$22,700,000 to be withdrawn (*see Note 4*). Experience gains from the Company sponsored plans in Manufacturing and Telecommunications are being used to eliminate current service costs. Unfunded liabilities for past service costs are being amortized over various periods extending to 1999. As a result of the foregoing, 1985 total pension expense amounted to \$7,300,000 (\$31,900,000 — 1984).

Based on the last actuarial studies for which results are available, the Company sponsored pension plans have an estimated unfunded liability at December 31, 1985 of \$29,900,000 (\$64,200,000 — 1984). The Company has no liability for the benefits payable under the Union sponsored pension plans for bargaining unit employees in Telecommunications Operations.



## 15. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for the year ended December 31, 1985 were purchases and sales of telecommunications equipment and supplies (*Note 1*), directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. Approximately 61% (65% — 1984) of the sales and 16% (14% — 1984) of the purchases of Microtel were to and from related parties. Such sales include \$75,800,000 to the Company for 1985 (\$85,500,000 — 1984). Microtel sales of telecommunications equipment to the Company are at prices and terms as low as those offered to Microtel's most favoured customers for like materials and services under comparable conditions.

In 1985, a joint venture involving the Company's management pension fund and a property development and construction company acquired a 10-acre office and manufacturing site from the Company's subsidiary, Microtel, for \$6,000,000.

## 16. Industry Segments Information

British Columbia Telephone Company and its subsidiary companies operate principally in two business segments:

1. Telecommunications operations, which include local exchange and long distance telephone services, teletype, transmission of facsimile and data, lease financing, other telecommunications services and sales; and
2. Telecommunications equipment manufacturing, which includes research and development and sales of telecommunications equipment, training, engineering, installation services and distributed products.

The following table sets forth revenues, operating profits and supplementary data for the years ended December 31, 1985 and 1984 for each of the Company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1985	1984	1985	1984	1985	1984
	(\$ Millions)					
Sales to customers	\$1,217.0	\$1,147.8	\$91.7	\$ 84.9	\$1,308.7	\$1,232.7
Inter-segment sales	—	—	75.8	85.5	75.8	85.5
Total revenues	1,217.0	1,147.8	167.5	170.4	1,384.5	1,318.2
Segment operating profit (loss)	341.0	296.5	.3	(4.2)	341.3	292.3
Interest charges	(109.9)	(101.3)	(6.4)	(6.1)	(116.3)	(107.4)
Income taxes	(113.3)	(89.2)	4.2	6.8	(109.1)	(82.4)
Net earnings (loss)	\$ 117.8	\$ 106.0	\$ (1.9)	\$ (3.5)	\$ 115.9	\$ 102.5
Identifiable assets	\$2,894.1	\$2,777.3	\$126.1	\$145.3	\$3,020.2	\$2,922.6
Capital expenditures	\$ 359.1	\$ 338.9	\$ 9.4	\$ 13.5	\$ 368.5	\$ 352.4
Depreciation and amortization	\$ 250.6	\$ 232.5	\$ 7.1	\$ 4.8	\$ 257.7	\$ 237.3

Telecommunications operations are conducted in the Province of British Columbia. Manufacturing Operations have plants located in the Provinces of British Columbia, Saskatchewan and Ontario. Export market sales were 28.8% of manufacturing sales to the public in 1985 (32.5% — 1984).

## 17. Prior Year Presentation

The 1984 amounts have been reclassified, where applicable, to conform with the 1985 presentation.



# Financial Supplement

Quarterly Financial Data	Three Months Ended	March 31	June 30 (\$ Millions)	Sept. 30	Dec. 31	Total 1985
<b>Telecommunications Operations</b>						
	Operating revenues	\$283.8	\$300.7	\$312.0	\$320.5	\$1,217.0
	Operating expenses	217.0	220.5	216.4	222.1	876.0
	Telecommunications operating earnings	66.8	80.2	95.6	98.4	341.0
<b>Manufacturing Operations</b>						
	Sales	26.1	44.4	47.5	49.5	167.5
	Costs and expenses	40.0	47.5	49.0	30.7	167.2
	Manufacturing operating earnings (loss)	(13.9)	(3.1)	(1.5)	18.8	.3
<b>Combined Operating Earnings</b>		52.9	77.1	94.1	117.2	341.3
	Debt service costs	28.2	27.4	29.5	31.2	116.3
	Earnings before income taxes	24.7	49.7	64.6	86.0	225.0
	Income taxes	10.9	24.4	30.9	42.9	109.1
	Net earnings	13.8	25.3	33.7	43.1	115.9
	Less — Preference and preferred share dividends	5.0	4.5	4.4	4.5	18.4
<b>Ordinary Share Earnings</b>		\$ 8.8	\$ 20.8	\$ 29.3	\$ 38.6	\$ 97.5
<b>Earnings Per Ordinary Share</b>		\$ .20	\$ .48	\$ .66	\$ .87	\$ 2.21
<b>Average Ordinary Shares Outstanding (Thousands)</b>		43,786	43,957	44,474	44,597	44,204

## Current Cost Reporting

### (a) Introduction

The object of current cost reporting is to provide an assessment of the effect of changing prices on the Company's operations.

During a period of inflation, the current costs of property subject to depreciation may be greater than the costs recorded. Part of that property, however, may have been financed by debt — resulting in a decline in real terms in the amount to be repaid.

### (b) Methodology

Effective 1983 standards of current cost reporting were recommended for Canada's major corporations by the Canadian Institute of Chartered Accountants. Initially the standards have been regarded as experimental in nature. The following comparative information has been determined in accordance with the standards.

### (c) The Effect of Current Cost on Earnings Statement

Because provisions for depreciation in the Company's historical statements do not take into account the increased cost of replacing the Company's telecommunications and manufacturing properties, the following adjustment to the historical earnings statement is made on a current cost basis. (The effect of restating inventories at current cost is not material):

	1985 (\$ Millions)	1984
Ordinary share earnings	\$ 97.5	\$ 82.1
Current cost adjustment (Depreciation)	(220.3)	(200.1)
Ordinary share loss under current cost basis	\$(122.8)	\$(118.0)



**Current Cost Reporting** *(continued)***(d) Increase in the Current Cost of Property and Inventories**

Under current cost accounting the carrying values of property and inventories at December 31, 1985, represents the Company's estimate of the current cost of maintaining sufficient assets to continue operations at current levels. The following table indicates that the current cost of property and inventory increased at a rate greater than inflation. Ordinary shareholders' equity increased in real terms by \$374.9 million, determined as follows:

	1985	1984
	(\$ Millions)	
Increase in the current cost amounts of telecommunications property, manufacturing property and inventories	\$ 577.6	\$ 388.1
Effect of general inflation	(202.7)	(176.0)
Excess of increase in current cost over the effect of general inflation	\$ 374.9	\$ 212.1

**(e) General Purchasing Power, Gain or Loss**

Because the Company financed part of its operations with debt and because of continuing inflation, the amount of that debt declined in real terms. This resulted in a further "real" increase in ordinary shareholders' equity of \$61.7 million (a gain in general purchasing power from having net monetary liabilities). The amount has been calculated, using the consumer price index, applied to the average net monetary liabilities outstanding during the year.

**(f) Financing Adjustment**

The Company has financed its operations through a combination of shareholders' funds and borrowed funds. If such financing continues, shareholders will not be called on to provide the whole of the increase in capital needed to support the higher current cost of inventories and telecommunications and manufacturing property. The financing adjustment represents the amount of the changes in the current cost of property and inventories which have been financed through debt. In this case, \$190.6 million of the \$577.6 million increase has been financed through debt. As pointed out, this benefit falls to the ordinary shareholders since they will not be called on to provide the increase in capital required.

**(g) Schedule of Assets on a Current Cost Basis as at December 31**

	Historical Cost Basis 1985	Current Cost Basis 1985	Historical Cost Basis 1984	Current Cost Basis 1984
	(\$ Millions)			
Telecommunications property (net)	\$2,644.7	\$4,832.9	\$2,540.9	\$4,613.8
Manufacturing property (net) and inventories	\$ 84.4	\$ 107.7	\$ 103.8	\$ 121.1
Net assets (ordinary shareholders' equity)	\$ 845.3	\$3,038.6	\$ 805.1	\$2,894.3

Current cost estimates for buildings, plant and equipment were developed by restating the historical cost property balances from the date of being placed in service, through the use of specific price indices based on the Company's own experiences. In some instances, where internal indices were unavailable, external indices were used. Land is valued at its current or assessed worth for taxes. Current cost depreciation is charged to the current cost income statement on the same basis as in the historical cost statement but is calculated on the basis of the average current cost for 1985. Inventories are valued at their current reproduction cost.



**Current Cost Reporting** (continued) (h) **Conclusion**

Management concludes from the above that there has been no impairment of capital employed in the business as a result of general inflation or changes in specific prices experienced. However, absolute reliance should not be placed on the ordinary shareholder equity gains cited above since they are based on management estimates and are not available for distribution to the ordinary shareholders.

**Employee Costs**

		Telecommunications <sup>(Note)</sup>		Manufacturing		Consolidated	
		1985	1984	1985	1984	1985	1984
		(\$ Millions)					
<b>Total Employee Costs Analyzed as Follows:</b>		<b>\$532.1</b>	<b>\$529.4</b>	<b>\$ 68.5</b>	<b>\$ 88.6</b>	<b>\$600.6</b>	<b>\$618.0</b>
<b>Salaries and Wages as Payment for:</b>	Time on the job	<b>\$377.6</b>	<b>\$376.1</b>	<b>\$ 74.4</b>	<b>\$ 71.2</b>	<b>\$452.0</b>	<b>\$447.3</b>
	Vacations and holidays	<b>72.1</b>	<b>72.4</b>	<b>8.5</b>	<b>8.8</b>	<b>80.6</b>	<b>81.2</b>
	Education Centre training	<b>5.9</b>	<b>4.8</b>	<b>.3</b>	<b>.8</b>	<b>6.2</b>	<b>5.6</b>
	Other	<b>11.5</b>	<b>15.1</b>	<b>2.2</b>	<b>2.0</b>	<b>13.7</b>	<b>17.1</b>
		<b>89.5</b>	<b>92.3</b>	<b>11.0</b>	<b>11.6</b>	<b>100.5</b>	<b>103.9</b>
	<b>Total Salaries and Wages</b>	<b>467.1</b>	<b>468.4</b>	<b>85.4</b>	<b>82.8</b>	<b>552.5</b>	<b>551.2</b>
<b>Related Costs:</b>							
	Company funding to pension plans	<b>30.0</b>	<b>31.9</b>	<b>(22.7)</b>	<b>—</b>	<b>7.3</b>	<b>31.9</b>
	Group medical/dental benefit payments	<b>9.9</b>	<b>10.4</b>	<b>2.1</b>	<b>1.8</b>	<b>12.0</b>	<b>12.2</b>
	Other employee benefits	<b>8.8</b>	<b>3.4</b>	<b>.8</b>	<b>1.1</b>	<b>9.6</b>	<b>4.5</b>
	Canada Pension Plan/Quebec Pension Plan	<b>5.4</b>	<b>5.0</b>	<b>.9</b>	<b>.9</b>	<b>6.3</b>	<b>5.9</b>
	Unemployment Insurance	<b>9.8</b>	<b>9.2</b>	<b>1.6</b>	<b>1.5</b>	<b>11.4</b>	<b>10.7</b>
	Workers' Compensation	<b>1.1</b>	<b>1.1</b>	<b>.4</b>	<b>.5</b>	<b>1.5</b>	<b>1.6</b>
	<b>Total Related Costs</b>	<b>65.0</b>	<b>61.0</b>	<b>(16.9)</b>	<b>5.8</b>	<b>48.1</b>	<b>66.8</b>
	<b>Total</b>	<b>\$532.1</b>	<b>\$529.4</b>	<b>\$ 68.5</b>	<b>\$ 88.6</b>	<b>\$600.6</b>	<b>\$618.0</b>

**Taxes Levied by Governments in Canada**

		1985	1984
		(\$ Millions)	
	Income taxes		
	Federal	<b>\$ 77.1</b>	<b>\$ 56.9</b>
	Provincial	<b>32.0</b>	<b>25.5</b>
	Property and machinery taxes	<b>42.2</b>	<b>47.5</b>
	Capital taxes	<b>3.2</b>	<b>2.7</b>
	Payroll taxes <sup>(Note)</sup>	<b>19.3</b>	<b>18.2</b>
		<b>\$173.8</b>	<b>\$150.8</b>

NOTE: Includes amounts capitalized



## Consolidated Five-Year Statistics

### Selected Income Items

(\$ Millions)

Telecommunications operating revenues

Telecommunications operating expenses

Salaries and wages expense

Provincial, municipal and other taxes

Other operating expense

Depreciation

Manufacturing sales

Manufacturing cost of sales

Manufacturing selling and administrative expenses (Note)

Combined operating earnings

Debt service costs

Income taxes

Preference and preferred dividends

Ordinary share earnings

Ordinary share dividends

### Financial Ratios

Earnings per ordinary share

Dividends declared per ordinary share

Equity per ordinary share

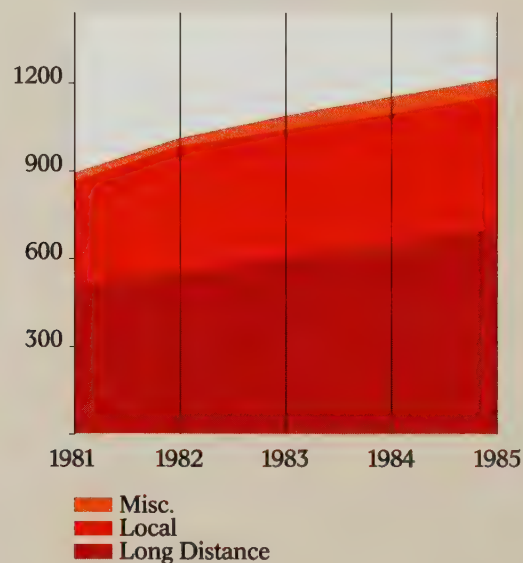
Percent return on average ordinary share equity

Percent return on average invested capital

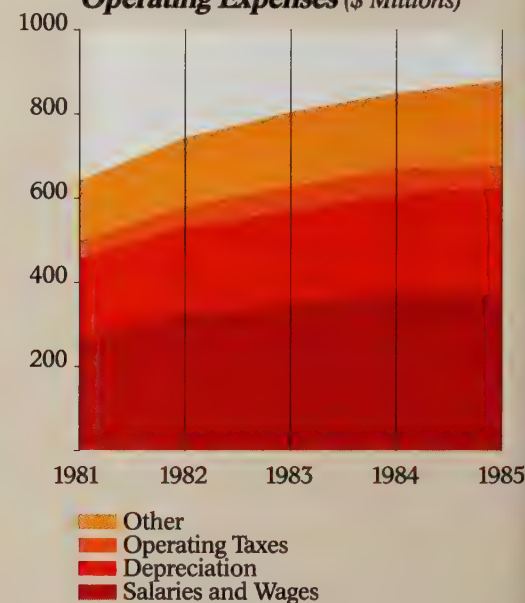
Percent debt to total capitalization

NOTE: 1985 includes Other income  
— net of \$10.8 million

**Telecommunications  
Operating Revenues (\$ Millions)**



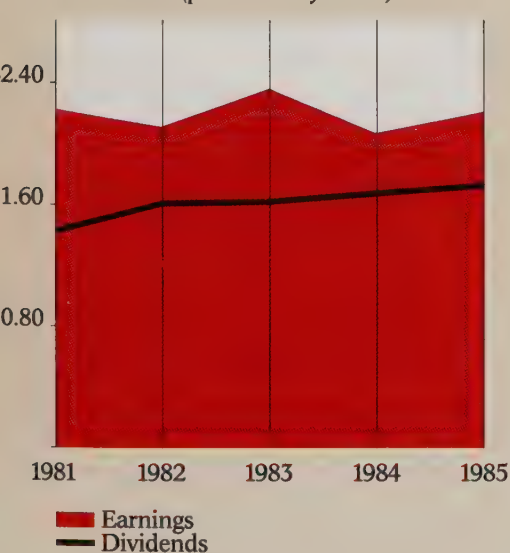
**Telecommunications  
Operating Expenses (\$ Millions)**



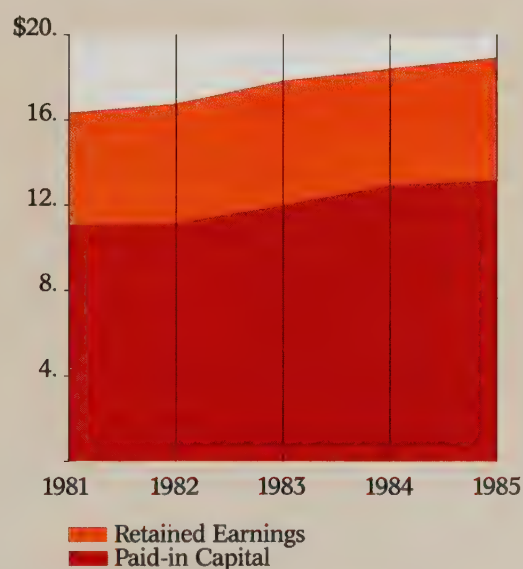


1985	1984	1983	1982	1981
<b>\$1,217.0</b>	<b>\$1,147.8</b>	<b>\$1,091.3</b>	<b>\$1,009.4</b>	<b>\$ 894.3</b>
<b>876.0</b>	<b>851.3</b>	<b>806.4</b>	<b>741.3</b>	<b>643.1</b>
<b>371.3</b>	<b>380.0</b>	<b>349.1</b>	<b>331.3</b>	<b>274.3</b>
<b>56.1</b>	<b>59.8</b>	<b>57.0</b>	<b>50.4</b>	<b>41.7</b>
<b>198.0</b>	<b>179.0</b>	<b>179.2</b>	<b>157.8</b>	<b>143.6</b>
<b>250.6</b>	<b>232.5</b>	<b>221.1</b>	<b>201.8</b>	<b>183.5</b>
<b>167.5</b>	<b>170.4</b>	<b>206.5</b>	<b>243.6</b>	<b>188.9</b>
<b>148.2</b>	<b>146.0</b>	<b>170.7</b>	<b>209.5</b>	<b>169.5</b>
<b>19.0</b>	<b>28.6</b>	<b>23.7</b>	<b>21.8</b>	<b>15.2</b>
<b>341.3</b>	<b>292.3</b>	<b>297.0</b>	<b>280.4</b>	<b>255.4</b>
<b>116.3</b>	<b>107.4</b>	<b>96.0</b>	<b>107.8</b>	<b>91.9</b>
<b>109.1</b>	<b>82.4</b>	<b>93.9</b>	<b>83.7</b>	<b>78.2</b>
<b>18.4</b>	<b>20.4</b>	<b>20.9</b>	<b>16.7</b>	<b>16.8</b>
<b>97.5</b>	<b>82.1</b>	<b>86.2</b>	<b>72.2</b>	<b>68.5</b>
<b>76.1</b>	<b>66.1</b>	<b>58.0</b>	<b>54.8</b>	<b>43.6</b>
<b>\$ 2.21</b>	<b>\$ 2.07</b>	<b>\$ 2.36</b>	<b>\$ 2.11</b>	<b>\$ 2.23</b>
<b>\$ 1.72</b>	<b>\$ 1.66</b>	<b>\$ 1.60</b>	<b>\$ 1.60</b>	<b>\$ 1.42</b>
<b>\$ 18.95</b>	<b>\$ 18.43</b>	<b>\$ 17.78</b>	<b>\$ 16.83</b>	<b>\$ 16.36</b>
<b>12.01</b>	<b>11.52</b>	<b>13.77</b>	<b>12.81</b>	<b>13.84</b>
<b>10.86</b>	<b>10.68</b>	<b>11.18</b>	<b>11.05</b>	<b>11.00</b>
<b>51</b>	<b>52</b>	<b>54</b>	<b>56</b>	<b>55</b>

**Earnings and Dividends  
Declared (per Ordinary Share)**



**Equity per Ordinary Share**





# Consolidated Five-Year Statistics

## Selected Balance Sheet Items

(\$ Millions)

Total property, at cost  
Accumulated depreciation  
Total capitalization  
    Short-term obligations  
    Long-term debt  
Preference and preferred shares  
Ordinary share equity

## Telecommunications Statistics

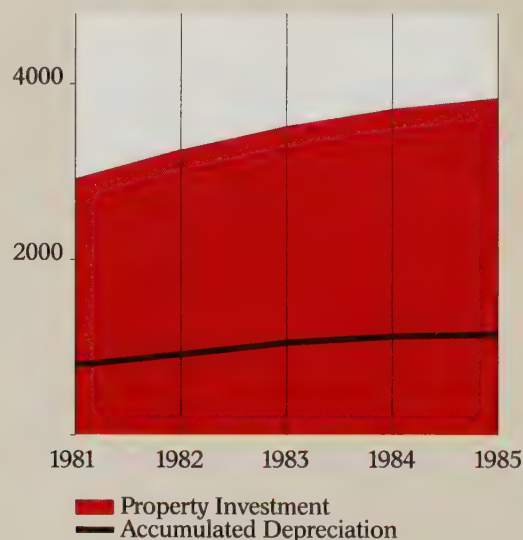
Gross capital expenditures (\$ Millions)  
Customer lines in service (Thousands) (Note 1)  
Percent electronic switched customer lines  
Net property investment per customer line (\$) (Note 1)  
Local calls completed (Millions)  
Long distance calls completed (Millions)  
Employees at year end (Note 2)  
    British Columbia Telephone Company  
    Canadian Telephones and Supplies Ltd.  
Number of shareholders at year end

## Manufacturing Statistics

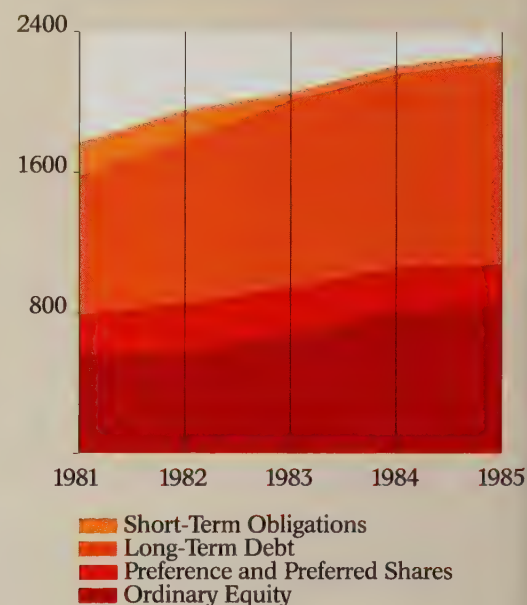
Domestic sales (\$ Millions)  
Export sales (\$ Millions)  
Gross research and development expenditures (\$ Millions)  
Employees at year end (Note 2)  
    Microtel Limited  
    Microtel Pacific Research Limited

NOTES: (1) 1981-1984 restated to include private line, radio and WATS access lines, to conform with the reporting practice of other Canadian telephone companies.  
(2) Regular full time employees

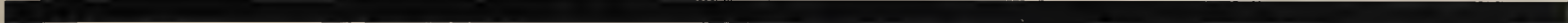
**Property Investment** (\$ Millions)



**Capital Structure** (\$ Millions)

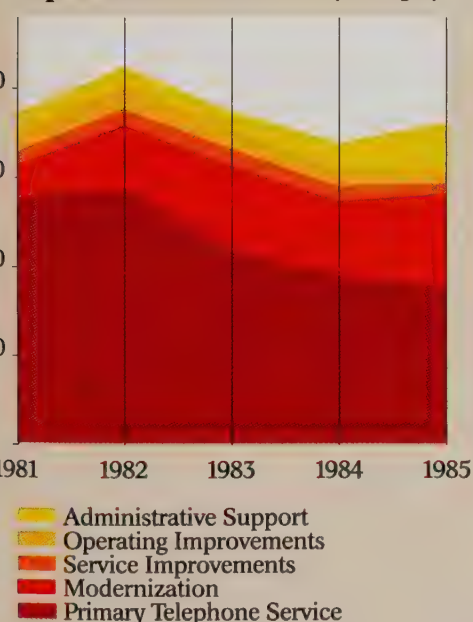




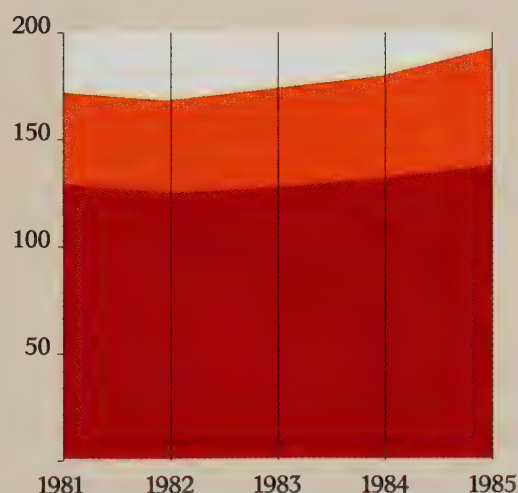


1985	1984	1983	1982	1981
\$3,856.7	\$3,716.6	\$3,529.0	\$3,255.5	\$2,930.4
1,168.9	1,131.4	1,041.2	907.9	795.3
2,224.9	2,213.7	2,059.2	1,952.8	1,784.7
36.2	49.7	47.1	170.4	193.8
1,101.3	1,096.5	1,060.5	924.0	792.0
242.1	262.9	272.7	280.7	239.6
845.3	805.1	678.9	577.7	559.3
\$ 359.1	\$ 338.9	\$ 371.8	\$ 424.8	\$ 370.2
1,525	1,475	1,441	1,400	1,381
69.7	50.5	40.5	39.9	38.0
\$ 1,734	\$ 1,723	\$ 1,701	\$ 1,652	\$ 1,524
3,718.8	3,639.6	3,229.2	3,140.0	3,165.7
192.2	180.2	173.5	168.4	171.1
13,079	13,268	13,477	14,063	14,406
555	705	834	863	859
30,009	32,045	29,949	27,692	26,409
\$ 139.4	\$ 142.8	\$ 181.4	\$ 208.8	\$ 161.4
\$ 28.1	\$ 27.6	\$ 25.1	\$ 34.8	\$ 27.5
\$ 26.1	\$ 23.6	\$ 15.4	\$ 13.8	\$ 10.6
1,899	2,284	2,187	2,638	3,038
330	319	297	278	263

**Telecommunications Capital Expenditures (\$Millions – By Category)**



**Long Distance Calls (Millions)**





# Shareholder Information

	1985	1984
Number of ordinary shareholders	17,719	17,509
Number of shares outstanding at December 31	44,604,381	43,688,620
Volume of shares traded	7,999,388	6,838,986
The Toronto Stock Exchange Price Ranges (High-Low)	\$27 <sup>1</sup> / <sub>8</sub> -21 <sup>1</sup> / <sub>4</sub>	\$22 <sup>1</sup> / <sub>4</sub> -19

## Principal Ownership

The Company's outstanding ordinary shares totalled 44,604,381 as at December 31, 1985.

Anglo-Canadian Telephone Company of Montreal, was at December 31, 1985 the owner of 22,362,039 shares, or 50.13% of the total ordinary shares outstanding (50.08% fully diluted).

## Conversion

The \$2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1985, 24,171 or 1.0% of such shares had not yet been converted.

## Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional contributions. The Plan provides a discount of 5% on the price of ordinary shares purchased with reinvested ordinary share dividends and allows for optional contributions of up to \$5,000 per calendar quarter for the purchase of additional ordinary shares. For an Offering Circular explaining the Plan, please write to:

Investor Relations, 19th Floor, 3777 Kingsway, Burnaby, B.C. V5H 3Z7

## Ordinary Share Dividends

Dividends are payable quarterly on the first day of January, April, July and October. In 1985, dividends declared amounted to \$.43 per share for each quarter, for an annual total of \$1.72.

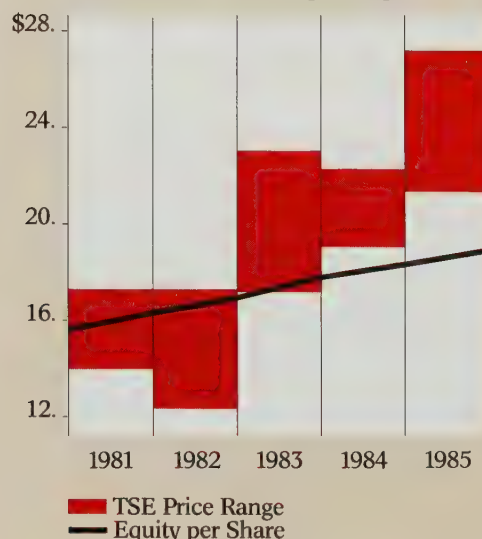
## Market Trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

## Transfer Agent and Registrar

Montreal Trust Company

**Equity per Ordinary Share  
and Market Trading Range**



Federal Government  
Valuation Day Value  
(December 22, 1971) \$12.75/Share



## Directors and Officers

### Directors

**Gordon F. MacFarlane**  
*Chairman and  
Chief Executive Officer  
British Columbia Telephone Company  
Burnaby, B.C.*

**M. Rendina K. Hamilton<sup>3</sup>**  
*Barrister and Solicitor  
Kelowna, B.C.*

**Justin V. Harbord<sup>1</sup>**  
*Company Director  
Victoria, B.C.*

**Gerald H. D. Hobbs<sup>2</sup>**  
*Private Investor  
Vancouver, B.C.*

**James L. Johnson<sup>2</sup>**  
*Senior Vice-President, GTE and  
President, GTE Telephone Operating Group  
Stamford, Conn.*

**Victor F. MacLean<sup>3</sup>**  
*Company Director  
Vancouver, B.C.*

**John W. Pitts<sup>1</sup>**  
*President and Chief Executive Officer  
MacDonald, Dettwiler and Associates Ltd.  
Vancouver, B.C.*

**Barbara J. Rae<sup>1</sup>**  
*President  
Office Assistance (Canada) Ltd.  
Vancouver, B.C.*

**Allan L. Rayfield**  
*Senior Vice-President, GTE and  
President, GTE Diversified Products Group  
Stamford, Conn.*

**Horace B. Simpson<sup>3</sup>**  
*Vice-Chairman  
Okanagan Holdings Ltd.  
Kelowna, B.C.*

**Hugh R. Stephen<sup>2</sup>**  
*Company Director  
Victoria, B.C.*

### Officers

**Gordon F. MacFarlane**  
*Chairman and Chief Executive Officer*

**Terence F. Heenan**  
*President and Chief Operating Officer*

**Brian A. Canfield**  
*Vice-President  
Technical Support*

**Donald W. Champion**  
*Vice-President  
Administration*

**Jocelyne Côté-O'Hara**  
*Vice-President  
Government Relations*

**Leo J. Dooling**  
*Vice-President  
Revenue Requirements*

**James A. MacInnes**  
*Vice-President  
Corporate Communications*

**W. K. (Bill) McCourt**  
*Vice-President and  
Burrard Area General Manager*

**D. Barry McNeil**  
*Vice-President  
Corporate Finance and Treasurer*

**K. Donald A. Morrison**  
*Vice-President  
General Counsel and Secretary*

**Roy A. Osing**  
*Vice-President  
Network Marketing*

**Colin G. Patterson**  
*Vice-President  
Corporate Development*

**E. Lynn Patterson**  
*Vice-President  
General Manager  
Business Telecom Equipment*

**Betty J. Rumford**  
*Assistant Secretary*

**Robert H. Stevens**  
*Vice-President  
Supply, Transportation and Buildings*

**J. Neil Stewart**  
*Comptroller*

**Peter C. Watson**  
*Assistant Treasurer*

Member of:

1 Audit Committee

2 Salary Committee

3 Pension Trust Committee



# Toward Excellence

## British Columbia Telephone Company

### *Our Values*

Our goal is excellence.

We have a fundamental commitment to:

- customer satisfaction
- quality, integrity and pride in all we do
- the effective application of technology.

This commitment — by dedicated, competent, innovative people — enables us to deliver full value in telecommunications, thereby earning the confidence of our customers and the support of our investors.

### *Our Vision\**

We will carry on three core businesses:

- the provision of telecommunications services through Telephone Operations
- the marketing of business-communications and office-automation products and services through BTE and B.C. Cellular
- the manufacture of telecommunications equipment and research in related areas through Microtel and its subsidiaries.

Embryonic and developing businesses will be nurtured and, where viable, developed to take advantage of new markets and opportunities.

The sum of these components will be a single enterprise — The B.C. Tel Group — with a single corporate vision:

- that our people in each component of the enterprise work cooperatively and harmoniously to optimize benefits for our customers, our employees and our shareholders so that the B.C. Tel Group, as a strong, successful telecommunications entity, can make a valuable and lasting contribution to our province and our country.

Broad and diversified sources of revenue are held to be fundamental to the long-term health and viability of the B.C. Tel Group.

### *Our Standards*

Our long-term success will be measured by the ways in which we:


- carry out our commitment to provide our customers with quality products and services
- provide meaningful work, challenging opportunities and satisfying careers for our employees
- conduct all our affairs in accordance with the highest standard of integrity
- meet the expectations of our shareholders for a fair return on and growth in the value of their investment
- contribute to the quality of life wherever we do business and otherwise recognize and respond to our social responsibilities.

By conducting our business in a manner consistent with our values, our standards and our vision, we believe we can assure and share in the future success of the B.C. Tel Group.

### THE B.C. TEL GROUP

*\*The above is a shortened version of our Vision Statement. Copies of both the Value and the Vision statements with their accompanying exposition and development are available on request.*





*A nine-storey addition to the Company's headquarters building in Burnaby was completed in 1985 to provide much-needed additional office space and parking facilities.*

**Head Office**  
3777 Kingsway  
Burnaby, B.C.  
V5H 3Z7

**British Columbia  
Telephone Company  
Ninety-Fourth  
Annual Report 1985**

Incorporated by Special Act of the  
Parliament of Canada, April 12, 1916

**Duplicate Annual Reports**

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

**Annual Meeting**

The Annual General Meeting of the Shareholders will be held on Thursday, March 20, 1986 at 10:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in Canada may call free of charge 1-800-663-9405.





Visit the Telecom Canada Pavilion at Expo 86 and see Walt Disney Productions' "Portraits of Canada" in Circle-Vision 360.



## BRITISH COLUMBIA TELEPHONE COMPANY

**NOTICE OF ANNUAL GENERAL MEETING  
OF SHAREHOLDERS**

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Notice is hereby given that the Ninety-third Annual General Meeting of the Shareholders of British Columbia Telephone Company will be held in the **Auditorium at British Columbia Telephone Company's Head Office Building, 3777 Kingsway, Burnaby, British Columbia, on Thursday March 21, 1985, at the hour of 11:00 a.m.**, local time, for the following purposes:

- (1) To receive the Consolidated Balance Sheet, the related Consolidated Statements of Earnings, Retained Earnings and Changes in Financial Position and the Report of Directors and Auditors' Report thereon;
- (2) To elect Directors for the ensuing year;
- (3) To appoint auditors for the ensuing year and to authorize the Directors to fix their remuneration; and
- (4) To transact such other business as may properly be brought before the meeting.

By order of the Board of Directors

**K. DONALD A. MORRISON**  
Secretary

Burnaby, British Columbia  
February 20, 1985

In order to ensure a quorum, it is important that your shares be represented at this meeting. If you cannot be present to vote in person, will you please ensure that your proxy or, if a corporation, your representative is appointed and present to vote on your behalf or the corporation's behalf at the meeting. Instructions regarding the appointment of a proxy or representative are included in the proxy information circular accompanying this notice.



## PROXY INFORMATION CIRCULAR

(Dated as at February 20, 1985)

This Proxy Information Circular is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of British Columbia Telephone Company (the "Company") for use at an Annual General Meeting (the "Meeting") of shareholders of the Company called for March 21, 1985 at 11:00 a.m. (local time) at the Auditorium, British Columbia Telephone Company, 3777 Kingsway, Burnaby, British Columbia. This Proxy Information Circular and a form of proxy will be mailed to the shareholders on or about March 1, 1985.

### Proxies

It is expected that the solicitation of proxies from the shareholders for use at the Meeting will be primarily by mail, but proxies may also be solicited personally by Directors or regular employees of the Company. The cost of this solicitation will be borne by the Company.

Each of the persons named in the enclosed form of proxy to represent shareholders at the Meeting is a Director and/or Officer of the Company. **Each shareholder has the right to appoint some other person to represent him at the Meeting and may exercise this right by inserting such other person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy. A person so appointed to represent a shareholder at the Meeting need not be a shareholder.**

To be voted at the Meeting, a form of proxy and the power of attorney or other authority, if any, under which it is signed must be deposited at the Company's head office at 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7, not later than 5:00 p.m. (local time) on March 20, 1985.

In the case of a corporate shareholder, a copy of the resolution of its directors, certified by its secretary, authorizing its representative, shall be deposited at the Company's head office not later than 5:00 p.m. (local time) March 20, 1985.

On any ballot that may be called for at the Meeting, all shares, in respect of which the persons named in the enclosed form of proxy have been appointed to act, will be voted or withheld from voting in accordance with the specifications made. **Except when a direction to vote against or to withhold voting is specified, the persons named on the enclosed form of proxy intend to vote for the election as Directors of the nominees named herein and for the appointment of the auditors.** If a specification is not made with respect to any matter, the shares will be voted on such matter as stated in this Proxy Information Circular. The form of proxy confers discretionary authority upon the persons appointed with respect to amendments to the matters identified in the notice of the Meeting and with respect to any other matters which may properly come before the Meeting.

The Directors of the Company know of no matters to come before the Meeting other than the matters identified in the notice of the Meeting. If any matters which are not now known should properly come before the Meeting, the persons named in the enclosed form of proxy will vote on such matters in accordance with their best judgment.

### Revocability of Proxy

A shareholder giving a proxy may revoke it, in addition to any other manner permitted by law, by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such Meeting, on the day of the Meeting or adjournment thereof.

### Voting Shares and Principal Holders Thereof

On February 20, 1985, the Company had outstanding 43,782,162 ordinary shares without par value, each of which carries the right to one vote. Any registered holder of ordinary shares as of the date of the Meeting will be entitled to vote at the Meeting.

Anglo-Canadian Telephone Company ("Anglo-Canadian") and its parent company, GTE Corporation ("GTE"), are the beneficial owners of 17,648,274 and 4,401,316 ordinary shares, respectively, which represent in the aggregate 50.36% of the outstanding ordinary shares of the Company.

The Directors and Officers of the Company do not have knowledge of any other person or company beneficially owning, directly or indirectly, ordinary shares carrying more than 10% of the voting rights attached to all ordinary shares of the Company.



## Remuneration of Directors and Officers

For the purposes of the Canada Corporations Act, the following table sets forth for the year ended December 31, 1984 the aggregate remuneration received from the Company and its affiliates by the Directors and Officers of the Company.

### Directors' and Officers' Remuneration from the Company and its Affiliates

Remuneration of Directors	Directors' fees	Salaries	Bonuses	Non-accountable expense allowance	Others	Total
(A) Number of Directors: Eleven (Note)						
(B) Body Corporate incurring the expense British Columbia Telephone Company	\$ 158,500	—	—	—	—	\$ 158,500
Remuneration of Officers						
(A) Number of Officers: Fourteen						
(B) Body Corporate incurring the expense British Columbia Telephone Company	—	\$1,405,200	—	—	—	\$1,405,200
TOTALS	\$ 158,500	\$1,405,200	—	—	—	\$1,563,700

Note: This number is authorized in the Company's Special Act of Incorporation.

The estimated aggregate cost to the Company in 1984 of providing for pensions for the officers of the Company was \$56,175 plus an undetermined amount which is included in the funding of past service liability, the total of which was actuarially determined for all management employees of the Company as of December 31, 1981, and which is being amortized over various periods extending to 1996. Directors of the Company as such are not entitled to the receipt of pensions. No affiliate contributes any part of the cost of providing for pensions for any officer of the Company.

The Company has Directors' and Officers' liability insurance, together with all of the affiliates of GTE. The Company has a total \$100,000,000 of coverage for both Directors and Officers as a group. The insurance policy provides, inter-alia, for a loss retention by the Company of \$250,000 for each loss plus 5% of the first \$1,000,000 of paid loss. The Company, by its by-laws, indemnifies all Directors and Officers and is liable in respect of the Directors and Officers for an additional loss retention under the insurance policy of \$5,000 for each Director or Officer, but no more than \$10,000 aggregate for each loss. A premium payment of \$14,422 (U.S.) was made by the Company in 1984 covering the 3-year policy period of May 19, 1984 to May 19, 1987.

Mr. Terence F. Heenan, formerly president and chief executive officer of Microtel Limited ("Microtel"), was granted a non-interest bearing loan by Microtel in connection with the purchase of his residence upon his return to Vancouver from Ottawa in 1981 after having served as president of the then TransCanada Telephone System. This loan was assumed by the Company in 1983 when he was appointed president and chief operating officer of the Company. The maximum principal amount of the loan outstanding in 1984 was \$30,000 and as of February 20, 1985 the balance of the loan outstanding was \$30,000.

## Election of Directors

The Special Act of Incorporation of the Company provides that the Board of Directors shall consist of not less than three nor more than eleven members, each of whom shall be elected at the Annual General Meeting for a term of one year. The following table sets out the information respecting all persons proposed to be nominated for election as Directors, all of whom are now Directors of the Company except Barbara Joyce Rae. The principal occupation of Barbara J. Rae for the five years preceding the date hereof was President - Office Assistance (Canada) Ltd. and its subsidiaries.

None of the persons named below holds any shares of Anglo-Canadian or GTE other than Mr. Gordon F. MacFarlane and Mr. James L. Johnson who own, respectively, 200 and 2,156 common shares of GTE. The number of shares beneficially owned, or over which control or direction is exercised, not being within the knowledge of the Company, has been supplied by the individual concerned.

Name and Office Presently Held with the Company	Present Principal Occupation as of February 20, 1985	Date Became Director of Company	Company Shares Held		
			Ordinary	Preferred	Preference
Gordon Frederick MacFarlane Chairman and Chief Executive Officer (2)	Chairman and Chief Executive Officer of the Company	February 10, 1977	1,635	—	—
Mary Rendina Kathleen Hamilton, Q.C.	Barrister and Solicitor	March 27, 1980	200	10	—
Justin Victor Harbord (1)	Company Director	March 29, 1976	501	—	—
Gerald Henry Danby Hobbs	Private investor	March 11, 1971	2,500	—	—
James Lawrence Johnson (3)	Senior Vice-President of GTE Corporation and President and Chief Operating Officer - Telephone Operating Group, GTE Service Corporation (Comprehensive service corporation)	March 24, 1983	1	—	—
Victor Frederick MacLean	Company Director	March 29, 1967	250	—	—
John Wilson Pitts (1) (4)	President and Chief Executive Officer, MacDonald, Dettwiler and Associates Ltd. (Designer/Manufacturer - high technology)	February 21, 1975	300	—	—
Barbara Joyce Rae	President, Office Assistance (Canada) Ltd. (Office automation and personnel services)	—	1	—	—
Allan Laverne Rayfield (3)	Senior Vice-President of GTE Corporation and President and Chief Operating Officer - Diversified Products Group, GTE Service Corporation (Designer/Manufacturer - communications products)	March 24, 1983	1	—	—
Horace Birch Simpson	Vice-President, Okanagan Holdings Ltd. (Investment holding company)	February 21, 1975	3,300	—	—
Hugh Roulston Stephen	Company Director	March 22, 1973	2,000	—	—

NOTE: (1) A member of the Audit Committee.

(2) Also a director of Canadian Telephones and Supplies Ltd., Microtel and 70,074 Limited, subsidiaries of the Company, and Microtel Pacific Research Limited, ("MPR"), a subsidiary of Microtel.

(3) Also a director of a number of subsidiaries of GTE.

(4) Also a director of Microtel and MPR.

The management does not expect that any of the nominees will be unable to serve as a Director but, in that event, discretionary authority may be exercised to vote for a substitute.



**Interest of Management and Others in Material Transactions**

Since the commencement of the Company's last financial year, the Company has had a number of transactions in the ordinary course of its business with GTE, One Stamford Forum, Stamford, Connecticut 06904 and its subsidiaries and affiliates, for the supply of goods and services.

**Appointment and Remuneration of Auditors**

Arthur Andersen & Co., Chartered Accountants, will be nominated for appointment as auditors of the Company to hold office until the close of the next Annual General Meeting. Such auditors were first appointed on March 14, 1968. The proposed resolution to appoint the auditors will authorize the Directors of the Company to determine the remuneration of the auditors.

The contents and sending of this proxy information circular were approved by the Directors of the Company on February 20, 1985.

K. DONALD A. MORRISON  
Secretary